halfords

21 June 2023

Halfords Group plc

Preliminary Results: Financial Year 2023

Group revenue up +15.3% year-on-year, with 48% of revenue now service-related and FY23 PBT within previously guided range.

Strong start to FY24 with market share increases across all categories.

Halfords Group plc ("Halfords" or the "Group"), the UK's leading provider of Motoring and Cycling services and products, today announces its preliminary results for the 52 weeks to 31 March 2023 (the "Period").

To provide a better understanding of underlying performance, financial comparisons will also be made relative to 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. From FY24 we will revert to one-year comparators. All numbers shown are on a post-IFRS 16 basis and before non-underlying items, unless otherwise stated.

FY23 overview:

- Significant Group revenue growth of +39.5% vs FY20, and +15.3% vs FY22. LFL growth of 13.4% vs FY20 (+2.4% LFL vs FY22) with all segments positive despite a backdrop of significant declines in Cycling and Consumer Tyres markets – which were down 24% and 14% respectively vs pre-covid on a volume-basis.
- Market share increases vs FY22 across Motoring, Tyres, Servicing and Cycling.
- Despite an estimated £95m* of year-on-year cost and market headwinds, investment in price to support customers, and continued investment in our transformation, Underlying Profit Before Tax (PBT) of £51.5m, down -£38.3m vs FY22 and -£5.4m vs. FY20.
- Launch of the UK's first, dedicated Motoring Loyalty Club with over 1.7m members at year end, exceeding targets and driving record levels of cross-shop and customer satisfaction.
- Lodge Tyre delivering business case following acquisition in October 2022, demonstrating the resilience of the commercial tyre market.
- Avayler, our third-party software as a service ("SaaS") business won its first major European client - Mobivia, one of Europe's leading mobility organisations.
- Group Gross margin -290bps vs FY22 as we remain competitively priced across Motoring and Motoring Services, supporting customers through the cost-of-living crisis. Autocentres -500bps primarily due to the expected margin dilution from acquiring tyre businesses.
- Over £20m of cost and efficiency savings realised during the year, beating initial target of £15m.
- Strong free cash flow generation, with Retail stock lower on a volume basis vs FY22.
- Resilient Balance Sheet, with Net Debt of -£1.8m pre lease debt and Net Debt : EBITDA pre-lease debt of 0.01x, (1.87x post-lease debt), within our target range.
- Final dividend of 7p per share proposed, to be paid in September 2023, resulting in a full year dividend of 10p, an increase of +11% vs FY22.

**£68m cost inflation, £16m impact from core market declines, £11m of business rates reinstatement.*

FY24 current trading and outlook:

Trading in FY24 year-to-date has been good, with positive Group LFLs despite less favourable weather conditions in early spring. We have delivered profitable sales growth and increased market share across all major categories, whilst continuing to support customers through the ongoing cost-of-living crisis.

We expect year-on-year profit growth in FY24 and are comfortable with current analyst consensus of £53.3m underlying PBT. Our expectations in FY24 are underpinned by the following assumptions:

- We forecast Consumer Tyre market volumes to grow +2.6ppts, Retail Motoring market volumes to grow +0.5ppts, Motoring Services market volumes to be broadly flat, and Cycling market volumes to decline -1ppt.
- We aim to grow volume share in each market which will be underpinned by;
  - Growing share in the £1bn specialist car parts market with a particular focus on the Brakes market, complementing our existing 3B's of Blades, Bulbs and Batteries.
  - Leveraging our financial services with the launch of our industry leading, "Buy Now Pay Later" offer.
  - Driving utilisation across our garages by targeting the lowest performing garages and dynamic pricing.
- We expect net cost inflation of c.£30m primarily through FX, energy and pay inflation, partially offset by freight.
- However, we aim to offset this cost inflation through our cost and efficiency programme;
  - The primary component will be our product cost reduction, which is already well underway.
  - Approximately a third of the required cost and efficiency target will be achieved through initiatives already delivered in FY23.
- 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.

Looking beyond FY24, we expect strong profit growth in FY25 as we take a significant step towards our mid-term expectation of £90-110m underlying PBT, as outlined at our Capital Markets Day in April 2023.

Graham Stapleton, Chief Executive Officer of Halfords, commented:

"In a very challenging year, our focus has been on supporting both customers and colleagues through the cost-of-living crisis. Investment in competitive pricing and the value for money offered by our Motoring Loyalty Club, has enabled us to help more people with their motoring needs. This has led to an outstanding sales performance and significant market share gains.

Over the year we have also made great progress against our strategy, building a bigger needs-based services business, with over three quarters of our revenue now coming from motoring, and almost half from service-related sales. These results have been achieved despite significant inflation and other macroeconomic headwinds and are therefore a clear illustration of the ever-increasing resilience of our business.

Trading since the start of the new financial year has been strong. We have seen growth in our loyalty club, now reaching over 2m members, and we have entered the £1bn car parts market, drawing on our unrivalled value and convenience.

Despite the uncertain consumer backdrop, I am confident that we will see the current momentum continue across the year, as we develop out an even more differentiated proposition. Last week we launched an industry leading Buy Now Pay Later offer to help customers cover the cost of essential vehicle maintenance and repairs. All of this is of course delivered by our highly skilled colleagues, across our unique and convenient combination of garages, mobile vans and stores."

Group financial summary

£m	FY23	FY20 (52 Wk)	FY23 vs FY20	FY22	FY23 vs FY22
Revenue	**1,593.5**	**1,142.4**	**451.1**	**1,382.4**	**211.1**
Autocentres	613.9	191.8	422.1	380.8	233.1
Retail	979.6	950.6	29.0	1,001.6	-22.0
Gross Margin	**49.3%**	**51.1%**	***-180bps***	**52.2%**	**-290bps**
Autocentres	50.4%	65.5%	*-1510bps*	55.4%	*-500bps*
Retail	48.6%	48.2%	*+40bps*	51.0%	*-240bps*
Underlying EBITDA	**186.0**	**188.6**	**-2.6**	**207.1**	**-21.1**
Underlying Profit Before Tax ("PBT")	**51.5**	**56.9**	**-5.4**	**89.8**	**-38.3**
Profit Before Tax	**43.5**	**22.7**	**20.8**	**96.6**	**-53.1**
Underlying Basic Earnings per Share	18.8p	25.4p	-6.6p	35.5p	-16.7p

Group revenue summary

	3-Year vs. FY20 Growth		**1-Year vs. FY22 Growth**	
	Total	**LFL**	**Total**	**LFL**
Halfords Group	**39.5%**	**13.4%**	**15.3%**	**2.4%**
Autocentres	**220.1%**	**31.6%**	**61.2%**	**15.4%**
Retail	**3.1%**	**9.9%**	**-2.2%**	**-1.8%**
Motoring	10.3%	14.5%	3.6%	4.0%
Cycling	-8.3%	1.3%	-11.2%	-10.9%

Group Revenue

- Group LFL growth of +2.4% vs FY22 with Autocentres +15.4% and Retail Motoring +4.0% and Cycling -10.9%.
- Group LFL growth of +13.4% vs FY20, with Autocentres +31.6%, Retail Motoring +14.5% and Cycling +1.3%.
- Service-related sales of c.£759m (48% of Group sales) in FY23, driven by organic LFL growth, the annualisation of National Tyres following the acquisition in December 2021, and the acquisition of Lodge Tyre in October 2022.
- B2B revenues of £384m in FY23, accounting for 24% of Group Revenue. Strong organic LFL growth in Commercial Fleet services, as well as the acquisition of Lodge Tyre, and strong growth of +16.7% in Cycle2Work ("C2W").

Autocentres

- Strong LFL growth against both FY20 and FY22 despite the consumer tyre market being -14% below FY20.
- Market volume share growth of +0.4pts in tyres on an LFL basis benefitting from the launch of same day tyre fitting which has driven incremental bookings into garages.
- Motoring Loyalty Club helping to drive performance with customer acquisition from Retail and online customer base. Roughly a third of MOTs booked in FY23 were as a result of Club Memberships and Retail cross shop.

- Acquisition of Lodge Tyre has strengthened our existing Commercial business of Universal and McConechy's, both of which have performed well, growing revenues and profit during the period.
- National Tyres is most exposed to the depressed consumer tyre market, impacting underlying business performance, however acquisition synergies achieved in line with plan.
- While the recruitment market remains challenging, a combination of new recruits, an extensive internal upskilling programme, retention initiatives, and a continued focus on utilisation means that the Group's capacity continues to improve.

Retail

- Market share growth across both Motoring and Cycling helping to offset discretionary categories, which materially declined in H2 FY23.

- Motoring:
  - Market volume share growth of +2.6ppts year on year with LFL revenue growth of +14.5% vs FY20 and +4.0% vs FY22, reflecting driven by our *"Keep on Motoring for Less"* campaign, the growth of our Motoring Loyalty Club and strategic price investments.
  - A strong H2 performance across motoring essentials as our in-year campaigns and investments resonated with customers.
  - Launch into wider £1bn car parts market, offering customers access to c.130k of car parts with free next day delivery to home or store. Our market share has doubled in the four months post-launch.
  - Strong growth across needs-based categories including maintenance and parts, offset by lower sales in higher ticket and discretionary categories.

- Cycling:
  - Revenue +1.3% LFL vs FY20 and –10.9% LFL vs FY22 with market volume share growth of +1.0pts partially offsetting the impact of the Cycling market being -24% below FY20 on a volume-basis.
  - Strong B2B sales through our C2W scheme, building it into the online shopping journey and focussing on acquiring new business accounts.

Gross margin

- Group gross margin of 49.3% represents an expected -180 basis point (bps) decline versus the 51.1% margin delivered in FY20.
- Retail Gross margin up +40bps vs FY20 due to improved Cycling margin and mix into the comparatively higher margin Motoring category.
- Autocentres gross margin decline of -500bps vs FY22, primarily a result of the acquisition impact of lower gross margin tyre businesses. This decline is expected to stabilise in H2 FY24, following the anniversary of the Lodge Tyre acquisition.

Cost and efficiency:

- Alongside the market headwinds noted, the Group has seen an estimated £68m of inflation vs FY22, within cost of goods, freight and operating costs, as well as the reinstatement of business rates of £11m following the FY22 COVID-19 relief scheme.
- £20m of cost and efficiency savings delivered from over 150 initiatives exceeded the initial £15m target.
- 41 lease renewals completed in Retail, saving an average of c.22% on each renewal.
- Closure of 7 Retail stores and 19 Garages in FY23, driving better return on fixed costs through trade transfer.
- Successful hedging policies in FX and Energy resulted in no inflationary impact during FY23.
- Competitive freight negotiations throughout FY23 at, or below, spot rates.
- Support Centre costs reduced through restructuring and organisational design work.

FY23 strategic update

Since setting out our strategy in 2018, we have evolved into a significantly bigger business with service-related sales representing 48% of total revenue, and our B2B business more than doubling. We have developed a unique and scaled platform, building a market leading interconnected infrastructure of stores, garages and vans, at the same time as creating a data and digitally-enabled business. This platform differentiates us from our competitors and provides significant opportunities for earnings growth. This transformation has been a multi-year process, with some of the major highlights in FY23 as follows:

- Acquisition of Lodge Tyre
    - Halfords is now the largest commercial tyre service provider in the UK, with the acquisition of Lodge complementing the previous acquisitions of Universal and McConechy's.
    - Grows garage estate to 643 and commercial van fleet to 479.
    - Acquisition delivers strategically important Motoring, Service and B2B revenue streams.
    - Year one synergies and business performance in line with business case, demonstrating the resilience of the commercial markets.
    - On track to deliver incremental synergies worth £3.8 million (EBITDA) by year 5.

- Motoring Loyalty Club
    - Over 1.7m members in year one, significantly exceeding target of 500k-1m members.
    - 125k premium members, exceeding our full year target of 50k – 100k.
    - Delivering excellent cross-shop results of c.15% vs 4% for non-club members, with increased shopping frequency and average spend per customer.
    - NPS results +4 points higher than equivalent score for non-members.
    - Over a third of MOTs driven by Club members.

- Avayler growth
    - Expansion into Europe following signing of third international customer – Mobivia, with the roll-out to start in Germany through ATU's mobile fleet.

- National Tyres integration
    - £6m of synergies delivered in FY23, in line with integration business case.
    - All sites operational on our Avayler garage platform "PACE", allowing coordinated central buying, slots bookable via Halfords.com and increased capacity and utilisation.
    - MOT lanes and equipment rolled out helping to grow Service Maintenance and Repair sales by +27% year-on-year.

- Fusion
    - Rollout of capital efficient programme to 50 towns including car park referral managers, new technology and improved operating processes.
    - "Solution selling" training completed by nearly all Retail colleagues and Autocentres managers.

Enquiries

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Results presentation

A live webcast followed by a Q&A call for analysts and investors 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 6 September 2023 we will report our 20-week Trading Update for the period ending 18 August 2023.

Notes to Editors

www.halfords.com www.avayler.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 393 Halfords stores, 2 Performance Cycling stores (trading as Tredz and Giant), 643 garages (trading as Halfords Autocentres, McConechy's, Universal, National Tyres and Lodge Tyre) and have access to 264 mobile service vans (trading as Halfords Mobile Expert, Tyres on the Drive and National), 479 commercial vans and 5 HME Cycling 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.

Chief Executive's Statement

As we laid out our plans for the year ahead in June last year, we stated the importance of maintaining our investment in key strategic initiatives despite the emerging economic challenges and cost of living crisis. One year on, I am proud of the strategic progress we have made during FY23. As detailed at our Capital Markets Day in April 2023, we have created a more **resilient**, **differentiated**, **customer-focussed** and **data-centric** business – one which I believe will go on to deliver significantly higher shareholder returns over the mid-term as we leverage our unique platform.

Some of the key strategic highlights in the year included acquiring Lodge Tyre in October 2022, signing our third client onto our Avayler SaaS platform, the continued integration of National Tyres by implementing the same Avayler software across the estate, and the launch of our Motoring Loyalty Club to over 1.7m customers in its first year.

Alongside a very busy year of strategic change, we have seen the underlying strength of the Group demonstrated through a solid financial performance, which has been delivered against a backdrop of the most challenging operating conditions I have seen during my career in Retail. Total Group revenue reached £1.6bn, growing +39.5% vs FY20 (+15.3% vs FY22), with Service-related sales accounting for almost half of the Group's total revenue at 48%, and B2B revenue reaching 24%.

Underlying profit before tax was £51.5m, down -£38.3m vs FY22 and -£5.4m vs. FY20, despite an estimated £95m of year-on-year cost and market headwinds, investment in price to support customers, and continued investment in our transformation. It is this operational and financial strength that has enabled investment for future growth, as well as allowing us to increase our FY23 dividend by +11% to 10p for the full year – evidence of the confidence we have in the plan.

<u>Group revenue</u>

Group revenues of £1.6bn were underpinned by LFL performance of +13.4% vs FY20 and +2.4% vs FY22. This is a particularly strong result considering the uncertain environment businesses and consumers have faced, and it demonstrates the relevance and resilience of our offer. As we have highlighted throughout this year, two of our core markets (Consumer Tyres and Cycling) are facing a very significant downturn, and in our Capital Markets Day we noted that the Consumer Tyre market remains -14% below FY20 and the cycling market -24% below the same period. To deliver sales growth despite these headwinds clearly demonstrates the underlying strength of the business and our ability to grow market share. As we look forward, the recovery of these markets, coupled with continued market share growth, will see us improve performance further.

Autocentres revenue

Autocentres revenues continue to grow rapidly as we scale the business. Total revenues reached £614m growing +31.6% LFL vs FY20 and +15.4% vs FY22, and now representing 38% of Group revenues. Given the tyre market performance, this is a very strong result and is driven by our growing share within the tyre market which increased +0.4ppts year-on-year and the benefits of our Motoring Loyalty Club, which has introduced more new customers to our business. Indeed, the Motoring Club drove roughly a third of MOTs booked in the period.

During the year we have also seen growth in our non-LFL business, with National Tyres present in H1 for the first time and the newly acquired Lodge Tyre from October 2022. Lodge Tyre, which is centred around B2B commercial fleet tyre services, has shown a very resilient trading performance – one of the key principles in our strategic decision to grow our B2B business. National Tyres revenues have inevitably been impacted by the consumer tyre market depression. The combination of lower-than-average miles driven vs pre-COVID and the subsequent cost of living crisis has temporarily extended the life of tyres and forced consumers to delay replacing until critical. Neither factor will be permanent, and as the market recovers we anticipate continued revenue growth across the Autocentres Group.

Retail Motoring

Retail Motoring has enjoyed a strong year, as markets normalised post-Covid, and the less discretionary nature of the product and service offering has been demonstrated. There have inevitably been some more discretionary markets within the offer (e.g. Technology) that have suffered as consumers look to lower their outgoings, but we have worked hard to grow market share across our entire offer. The overall result therefore masks what we consider a very strong performance in more needs-based products. We have also improved the value of our offer, as well as the overall customer proposition. During H2, we entered the £1bn wider car parts market, providing customers with access to thousands of car parts, with next day delivery to home or store.

Retail Cycling

Whilst Cycling saw a fairly resilient performance during H1, the latter part of Q3 and Q4 saw a pronounced market deterioration due to the more discretionary nature of this category. Whilst we have grown our share of the market, it was not enough to offset the tough market conditions. As market leaders, Cycling continues to be an important part of the business, giving consumers a method of transport that is both environmentally friendly as well as beneficial for their fitness.

Whilst the more mainstream cyclist has generally reduced their spending, our market leading Cycle2Work scheme has enjoyed success, growing +16.7% year-on-year. We continue to develop our platform, making it easier for customers to gain access to exclusive and market leading own brand bikes through this government supported tax free cycling scheme.

Strategic progress

Acquisition of Lodge Tyre

As noted at our interim results, Lodge Tyre was acquired shortly after the close of H1, in October 2022. Lodge is a commercial vehicle tyre and service specialist and complements our existing commercial fleet businesses of McConechy's and Universal Tyres. It significantly expands our UK coverage and makes Halfords the UK's commercial tyre services market leader. We now have a commercial fleet of 479 vans and 90 centres operating across the UK, allowing businesses to work with a single partner to support their fleets.

Lodge is perfectly aligned to our areas of strategic priority, operating wholly within the motoring services sector, and with over 90% of its revenues in B2B markets.

Whilst the integration of Lodge is not yet complete, it has joined the Group seamlessly and performed very well, with business performance in line with our business case expectations.

Avayler

Our Avayler platform is the software that underpins the Halfords motoring services operating model. At our Capital Markets Day in April, we detailed how this platform is central to the success of our business.

The SaaS version of our Avayler platform is already helping three of the biggest automotive businesses, (American Tire Distributors and TireBuyer in the US, and Mobivia in Europe) provide a truly customer centric service offering whilst streamlining their operations, increasing efficiencies, and reducing costs.

Motoring Loyalty Club

The launch of our Motoring Loyalty Club in March 2022 was a significant milestone for the Group. In June 2022 we set our year one targets for the club, which we have comfortably exceeded. This is a clear sign of the relevance and potential of the club, even at this early stage. With over 1.7m members against a target of 500k to 1m, and over 125k subscription members vs a target of 50-100k, customers are already enjoying the

benefits of the club. Equally as important for Halfords, it brings a rich dataset to the Group which allows us to understand our customer's needs better, and form more valuable lifetime customer relationships.
The club also offers more tangible benefits to the Group. In a year of very high inflation and low consumer confidence, the club has enabled the acquisition of customers to our Autocentres business from within the Group, leveraging our multi-million Retail and Digital customer bases. This has allowed us to reduce our marketing acquisition costs in channels like radio, outdoor advertising, and Google.

As a result of the club, roughly a third of Autocentres MOT's in FY23 were members of the club, with members cross shopping more than 4x the rate of non-members. Most importantly however, is that NPS scores from members were +4 points higher than non-members.

National Tyres

As noted above, National Tyres is most exposed to the current downturn in the consumer tyre market. Despite this we have seen some excellent progress in the integration which, as the tyre market recovers, will ensure delivery of the acquisition business case. Synergies from the acquisition have delivered over £6.0m of profit in FY23, in line with the original business case.

A key activity in the year has been the implementation of our Avayler software across the estate, centralising and coordinating our buying approach. This has been achieved by leveraging our single integrated Group website, which means National garage slots are now available to book via the Halfords Group website. This provides the National garages with a bigger market, growing demand, capacity and efficiency, and supported the growth of our service, maintenance and repair business.

Fusion

Our Fusion programme is the transformation of the Halfords customer experience within a town. During FY23 our focus was to rollout the most capital efficient elements from the Halifax and Colchester trials.

As a result, we have upgraded the retail car park service provision in 50 towns alongside training nearly all our colleagues across Retail and Autocentres in selling "solutions", empowering more colleagues with the tools to sell the full solution to every customer, every time.

Operating review

FY23 proved to be another challenging operating environment. The Ukraine war acted as a catalyst to already increasing inflation, but our trading through H1 proved relatively resilient with the exception of the consumer tyre market which continued to suffer the after-effects of lower mileage driven post COVID-19 and the cost-of-living crisis. H2 trading began with a similar tone, but it was the volatile political and economic environment in the Autumn that brought about a rapid change in trading patterns in more discretionary, and typically high-ticket, products.

As a business we continued through H2 as we began in H1; a focus on cost and efficiency, delivering our most critical strategic investments, and trading with agility against difficult market conditions. Our cost and efficiency programme delivered over £20m of savings, beating the targets set out in June 2022. Highlights included lease negotiations in Retail, warehousing and distribution efficiencies, and negotiations of key freight contracts to ensure the Group rates were at or below spot rates. The Group also successfully hedged the US dollar and energy markets to deliver an average dollar exchange rate in cost of goods above $1.30 and mitigated the potential increase in energy rates in FY23.

This monumental effort was necessary to tackle the inflation in costs across the business. Although the cost of freight was successfully managed, it was still a significant headwind in FY23, as was inflation in cost of goods generally. Many of our international supply partners continued to operate below capacity and input prices remained significantly above pre-Covid levels. A 6.6% National Living Wage increase from April 2022 also drove inflation into labour costs, as did the significant skills shortage across the UK - particularly noticeable in Autocentre Technician markets.

We therefore consider the FY23 underlying profit before tax of £51.5m to be a solid result against such a difficult environment.

Capital structure and dividend

We understand the importance of the ordinary dividend to many of our investors and we have proposed a FY23 final dividend of 7p per share (FY22 6p) to be paid on 15 September 2023 with the corresponding ex-dividend date of 10 August 2023 and the record date of 11 August 2023. This represents a full year dividend of 10p per share, an increase of +11% on FY22, in line with our aspirations to make the dividend progressive.

At our Capital Markets Day in April 2023, we reconfirmed our capital allocation priorities, highlighting our dividend cover targets:

1. Maintaining a prudent balance sheet
2. Investment for growth
3. M&A, focused on Autocentres
4. Dividend covered by 1.5x – 2.5x underlying profit after tax
5. Surplus cash returned to shareholders

During the year the Group extended its £180m debt facility until December 2025.

Average capital expenditure is expected to be in the range of £50-60m p.a. in the mid-term, assuming no material acquisitions, which represents approximately 3% of revenues. We expect FY24 capex to be at the lower end of this range.

Graham Stapleton

Chief Executive Officer, Halfords Group plc

21 June 2023

Chief Financial Officer's Report

Halfords Group plc ("the Group" or "Group")

Reportable Segments

Halfords Group operates through two reportable business segments:

- Retail, operating in both the UK and Republic of Ireland; and
- Autocentres, operating solely in the UK.

All references to Retail represent the consolidation of the Halfords ("Halfords Retail") and Performance Cycling Limited (together, "Tredz and Wheelies") trading entities. All references to Autocentres represent the consolidation of the Halfords Autocentres, McConechy's, The Universal Tyre Company (Deptford) Limited ("Universal"), Axle Group Holdings Ltd ("National Tyre"), Avayler Trading Limited and LTC Trading Holdings ("Lodge Tyre") trading entities. All references to Group represent the consolidation of the Retail and Autocentres segments.

The "FY23" accounting period represents trading for the 52 weeks to 31 March 2023 ("the financial year"). To provide a better understanding of underlying performance, financial comparisons will also be made relative to 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. From FY24 we will revert to one-year comparators. All numbers shown are on a post-IFRS 16 basis and before non-underlying items, unless otherwise stated.

Group Financial Results

	FY23 (52 weeks) £m	FY22 (52 weeks) £m	FY20 (52 weeks) £m	FY23 versus FY22 change	FY23 versus FY20 change
Group Revenue	1,593.5	1,382.4	1,142.4	15.3%	39.5%
Group Gross Profit	785.3	721.7	584.0	8.8%	34.5%
Underlying EBIT	63.6	101.1	70.5	(37.1%)	(9.8%)
Underlying EBITDA	186.0	207.1	188.6	(10.2%)	(1.4%)
Net Finance Costs	(12.1)	(11.3)	(13.6)	7.1%	(11.0%)
Underlying Profit Before Tax	51.5	89.8	56.9	(42.7%)	(9.5%)
Net Non-Underlying Items	(8.0)	6.8	(34.2)	(217.6%)	(76.6%)
Profit Before Tax	43.5	96.6	22.7	(55.0%)	91.6%
Underlying Basic Earnings per Share	18.8p	35.5p	25.4p		

Full year FY23 underlying profit before tax ("PBT") was £51.5m, -£5.4m (-9.5%) vs. FY20, and -£38.3m (-42.6%) vs FY22. High levels of economic uncertainty and ongoing consumer financial worries weakened the UK economy throughout FY23. The Group has seen over an estimated £68m of year-on-year inflation in FY23, and two of its core markets, Consumer Tyres and Cycling, have seen significant volume decline, of -14% and -24% respectively, vs. FY20. In the context of over £90m of headwinds, a PBT of -9.5% below FY20 demonstrates the underlying strength, cost discipline, and strategic progress the Group has made over the intervening years. We believe the strategic progress made in FY23 will deliver strong and growing returns in the mid-term.

In June 2022 we reiterated the importance of continuing to grow our Services-revenues, albeit focused on a few, key strategic investments that would make a meaningful impact to the Group's future performance. As a result, Lodge Tyre was acquired for total consideration of £37.5m in October 2022 (with £33.5m paid on completion after adjustments and £4.0m paid in FY25 subject to performance), the integration of National Tyres was advanced with Avayler implemented in all sites, and the SaaS version of the same Avayler software secured its 3rd client. Lastly, the launch of the UK's first, dedicated Motoring Loyalty club in March 2022 has been successful, with customers engaging with the club ahead of our expectations. As we set out at our Capital

Markets Day in April 2023, the platform we have created will enable us to grow group Revenues to £1.9bn and PBT to between £90m -£110m in the mid-term.

Group revenue of £1,593.5m in FY23 reflected a like-for-like ("L4L") increase of +2.4% from FY22 and +13.4% from FY20. Total revenue increased 15.3% from FY22 and 39.5% from FY20. Total Revenue comprised Retail revenue of £979.6m and Autocentres revenue of £613.9m. Retail revenues grew +3.1% (+£29.0m) versus FY20, but declined -2.2% versus FY22, primarily due to a significantly softer than expected Cycling market. Autocentre revenue saw both strong LFL growth of 31.6% vs FY20 and also benefited from acquisitions, with total revenue growth of +220.1% vs FY20 and +61.2% vs FY22.

Group gross profit of £785.3m, +£63.6m vs FY22 (FY20: £584.0m) was 49.3% of Group revenue (FY22: 52.2%, FY20: 51.1%), comprising of Retail gross margin of 48.6%, up +40bps from FY20, despite material increases in the cost of goods sold and freight costs, offset by a decrease in the Autocentres gross margin of -500bps to 50.4%. This reduction in Autocentres is driven by the dilutive effect of our acquisitions, which are principally focussed on the lower gross margin % tyres market. Throughout the year, investment was made across the Group to support customers through the cost-of-living crisis.

Total underlying costs increased to £721.7m (FY22: £620.6m, FY20: £513.5m), of which Retail comprised £417.4m (FY22: £420.9m, FY20: £395.6m), Autocentres £299.0m (FY22: £196.6m, FY20: £115.8m) and unallocated costs £5.3m (FY22: £3.1m, FY20: £2.1m). Unallocated costs represent amortisation charges in respect of intangible assets acquired through business combinations.

The overall cost increase of 40.5% (+£208.2m) vs FY20 has been slightly ahead of revenue growth over the same period of +39.5%. Almost two thirds of the overall Group operating cost increase has been driven by acquisitions, either annualising a part year in FY20 or having been acquired during the period. A further increase in operating costs has also resulted from LFL revenue growth in both Autocentres and Retail, significant cost inflation across the Group, and investment in areas of strategic importance such as our Motoring Loyalty Club, our Avayler platform, digital, and colleague training.

When compared to FY22, operating costs have increased £101.1m (+16.3%), growing slightly ahead of revenue growth over the same period of +15.3%. Acquisitions have contributed approximately half of the cost increase, with National acquired in H2 FY22, and Lodge from H2 FY23. Additionally, the Group has been exposed to significant inflationary headwinds in both labour and general operating costs year on year, and has also seen Business Rates Relief fully normalised in FY23, with c.£11m of rates not levied in FY22. To mitigate these impacts we have continued with our focus on cost and efficiency, having saved approximately £20m of costs year-on-year, ahead of our initial target of £15m. These savings were delivered through initiatives including 26 store and garage closures in FY23 where more profitable trade transfer exists, lease renewals on 41 retail stores saving 21.7% on average, support centre headcount rationalisation and numerous other initiatives.

Group Underlying EBITDA decreased 10.2% vs FY22 and 1.4% vs FY20 to £186.0m, whilst net finance costs were £12.1m (FY22: £11.3m, FY20: £13.6m). Underlying Profit Before Tax for the year decreased 42.6% vs FY22 and 9.5% vs FY20 to £51.5m.

Non-underlying items totalled a £8.0m debit in the year, relating to restructuring costs, acquisition costs and the costs associated with property closures. FY22 non underlying items were a credit, primarily reflecting the release of property provisions taken as a result of a retail portfolio review, with the charge in FY20 largely relating to that same review. After non-underlying items, Group Profit Before Tax was £43.5m, (FY22: £96.6m, FY20: £22.7m).

Retail

	FY23 (52 weeks) £m	FY22 (52 weeks) £m	FY20 (52 weeks) £m	FY23 versus FY22 change	FY23 versus FY20 change
Revenue	979.6	1,001.6	950.6	(2.2%)	3.1%
Gross Profit	476.0	510.7	458.4	(6.8%)	3.8%
Gross Margin	48.6%	51.0%	48.2%	(240bps)	40bps
Operating Costs	(417.4)	(420.9)	(395.6)	(0.8%)	5.5%
Underlying EBIT	58.6	89.8	62.8	(34.7%)	(6.7%)
Non-underlying items	(0.7)	8.9	(30.7)	(108.0%)	(97.7%)
EBIT	57.9	98.7	32.1	(41.3%)	80.4%
Underlying EBITDA	142.0	168.4	159.0	(15.7%)	(10.7%)

Revenue of £979.6m reflected a LFL sales increase of +9.9% vs FY20 and -1.8% vs FY22. Total revenue increased +3.1% vs FY20 after adjusting for the 53 stores that have closed, and declined -2.2% vs FY22. FY23 consumer confidence has been very volatile with the impacts of increasing interest rates, energy bills and general inflation severely impacting customers willingness to spend. This had a notable impact on more discretionary and higher-ticket product sales at Halfords. Whilst cycling started FY23 with some degree of resilience, the latter part of Q3 onwards saw a marked deterioration in performance aligned to the increased economic uncertainty arising from the Autumn mini budget. The British Cycling Association estimates the cycling market closed FY23 with sales volumes 24% below pre-COVID levels however significant market inflation partly offset the volume decline, resulting in a full year sales performance of -8.3% vs FY20 and -11.2% vs FY22. Motoring fared better, with the needs-based categories performing strongly, more than offsetting discretionary, big-ticket items such as technology and touring. Full year Motoring sales closed FY23 +10.3% above FY20 and +3.6% vs FY22. The above factors have resulted in Motoring increasing its mix of the Retail business by +3.6ppts vs FY20.

The Retail Operational Review in the Chief Executive's Statement contains further commentary on the trading performance in the year. Like-for-like revenues and total sales revenue mix for the Retail business are split by category below:

	FY23 LFL 1yr (%)	FY23 LFL 3yr (%)	FY23 Total sales mix (%)	FY22 Total sales mix (%)	FY20 Total sales mix (%)
Motoring	+4.0%	+14.5%	**62.0**	59.4	58.4
Cycling	-10.9%	+1.3%	**38.0**	40.6	41.6
Total	**-1.8%**	**+9.9%**	**100.0**	100.0	100.0

Gross profit for the Retail business, at £476.0m, -£34.7m vs FY22 (FY20: £458.4m) represented 48.6% of sales, a decrease of -240bps on FY22 and an increase of +40bps on FY20 (FY20: 48.2%). Versus FY20, the increase in Motoring mix has contributed +0.6ppts of accretion with the remaining movement a result of rate movements withing Motoring and Cycling. Whilst Cycling has seen strong underlying profitability improvements since FY20, as noted in our previous updates, during FY23 it has faced very significant inflationary pressures from both cost of goods and freight.

Retail operating costs before non-underlying items were £417.4m, a decrease of 0.8% on FY22 and an increase of 5.5% on FY20 (FY22: £420.9m and FY20: £395.6m). The decrease against FY22 has been driven by benefits associated with our cost transformation programme as well as a reduction in bonus accruals that were made as a result of lower overall Group performance. The prior year benefitted from £7m of non-recurring Business Rates Relief.

Underlying EBIT was £58.6m, -34.7% vs FY22 and -6.7% vs FY20 with cost and efficiency savings helping to mitigate a tough trading environment, in particular, our discretionary category sales and significant inflationary headwinds.

Autocentres

	FY23 (52 weeks) £m	FY22 (52 weeks) £m	FY20 (52 weeks) £m	FY23 versus FY22 change	FY23 versus FY20 change
Revenue	613.9	380.8	191.8	61.2%	220.1%
Gross Profit	309.4	211.0	125.6	46.6%	146.3%
Gross Margin	50.4%	55.4%	65.5%	(500bps)	(1510bps)
Operating Costs	(299.0)	(196.6)	(115.8)	52.1%	158.2%
Underlying EBIT	10.4	14.4	9.8	(27.8%)	6.1%
Non-underlying items	(7.3)	(2.1)	(3.5)	247.6%	108.6%
EBIT	3.1	12.3	6.3	(74.8%)	(50.8%)
Underlying EBITDA	49.5	38.8	29.6	27.6%	(67.2%)

Autocentres generated total revenues of £613.9m, an increase of 220.1% on FY20 (LFL increase of 31.6%) and 61.2% on FY22 (LFL increase of 15.4%).

Non-LFL revenues versus FY20 included either full or part year benefits from our six acquisitions: Tyres on the Drive and McConechy's acquired in October and November FY20 respectively, Universal in March FY21, Iverson Tyres in November FY22, National Tyre in December FY22 and Lodge Tyre in October FY23. Our acquisitions added over £250m of revenue versus FY20 and c.£170m versus FY22.

Gross profit of £309.4m (FY22: £211.0m, FY20: £125.6m) was 50.4% of sales; a decrease of 500bps on FY22 and 1510bps on FY20. The gross profit growth of nearly +150% was again a result of our acquisitions, with underlying profitability in our existing garages held despite an increase in more dilutive tyre sales. This has been a result of our Avayler operating system, that centralises buying and improves utilisation to deliver higher levels of sales for a given cost base.

The decrease in gross profit % as noted previously, has been as a result of our acquisitions, which are gross margin rate dilutive given their business model focus on tyres. Most notably, Universal, McConechy's and now Lodge Tyre, operate within the commercial B2B sector and as such has a different operating model of lower gross margin but strong margin per worked hour, and more resilient revenues. National Tyre operates primarily within the B2C sector, more aligned to our core Autocentres business, but also with a heavy tyre mix and lower gross margins. As detailed at the time of acquisition and at our CMD in April 2023, we are confident that significant synergies will be delivered through a combination of greater scale and leveraging our digital operating model which will result in stronger operating margins across the enlarged Autocentres group looking forward.

Operating costs were £299.0m, +£183.2m (+158.2%) above FY20 and +£102.4m (+52.1%) above FY22. As noted above, almost two thirds of this increase has been a result of acquisitions vs FY20 and the remaining amount driven by investment to support strong LFL sales growth in the core business and inflationary pressures, particularly in wage costs.

Autocentres underlying EBIT was £10.4m (FY22: £14.4m, FY20: £9.8m). FY22 benefited from one off COVID related rates relief, and profit on the sale and leaseback of certain Universal sites. In FY23 the performance of National Tyre (and to a lesser relative extent, the other Autocentres businesses) was adversely impacted by a weak tyre market, which has not recovered to pre-Covid levels as drivers continue to replace their tyres with less frequency and at lower price points, reflecting very low consumer confidence levels. This impact, together with the material cost inflation during the year, was partly offset by underlying trading performance and the synergy savings from acquisitions, which were in line with business case. Our intention had been to mitigate profit erosion driven by cost inflation through driving more higher margin servicing, maintenance and repair work, underpinned by growing capacity in our garages. As we communicated in our January trading update, recruiting skilled technicians during FY23 was more difficult that we'd anticipated and as a result we were unable to fully offset the cost inflation. Strong profit growth is anticipated in Autocentres in FY24 as the tyre market begins to recover, we see the full year benefit of Lodge ownership, a second year of synergy savings following the National acquisition and drive better garage utilisation.

Portfolio Management

In FY23 we continued to grow our Services business through the acquisition of Lodge Tyre.

The total number of fixed stores or garages within the Group stood at 1036, with a further 269 vans across HME, National and Havebike and 479 Commercial vans as at 31 March 2023. The portfolio comprised 393 Halfords Retail stores (end of FY22: 400) and 643 Autocentres garages (end of FY22: 611).

The following table outlines the changes in the portfolio over the year:

	Stores	***Garages***	***Vans***
Relocations	-	-	–
Leases renegotiated	41	37	–
Refreshed	-	-	–
Openings/Acquisitions	-	51	265
Closed	7	19	–

In Retail, seven stores closed during the year, three of them in the final quarter. When analysing the anticipated sales transfer to other channels and neighbouring stores, it was considered more profitable to the Group to close these stores and reduce the overall cost base.

The number of lease expiries, or breaks under option, increases significantly within the next five years. Retail will see more than three quarters of stores experience optionality within five years, allowing for a high degree of flexibility within the estate. The average remaining lease length in Retail is 3.3 years.

Within Autocentres, no garages were opened organically, but 51 garages and 265 vans were acquired through the acquisition of Lodge Tyre in the year and 19 garages were closed, taking the total number of Autocentre garages to 643 as at 31 March 2023 (end of FY22: 611).

With the exception of nine long-leasehold and three freehold properties in Autocentres, the Group's locations are occupied under short-term leases, the majority of which are on standard lease terms, typically with a five to 15-year term at inception and with an average lease length of under six years.

Net Non-Underlying items

The following table outlines the components of the non-underlying items before tax recognised in the 52 weeks ended 31 March 2023:

	FY23 £m	**FY22 £m**
Organisational restructure costs (a)	6.3	1.1
Acquisition and investment-related fees (b)	1.9	2.8
One-off claims (c)	-	(2.2)
Closure costs (d)	(0.2)	(8.5)
Net non-underlying items	8.0	(6.8)

a. In the current and prior period, separate and unrelated organisational restructuring activities were undertaken. In FY22, a strategic redesign of the in-store operating model was undertaken to better meet our customers' expectations and deliver a consistent shopping experience across our estate. In FY23, the group have undertaken a restructure of the support centre.

Costs in relation to the organisational restructuring activities are made up of: redundancy costs of £3.1m (PY: £0.3m), £1.6m (PY: £0.8m) for the replacement of the WMS system, £0.4m (PY: £nil) relating to our master data management system and £1.2m for the new system and financial dual running costs incurred in the integration of National Tyre. These costs are not part of recurring business and therefore, have been deemed non-underlying expenses.

b. In the current and prior periods, costs were incurred in relation to the investments in National Tyre, Iverson, HaveBike, and Universal.

- £1.9m costs incurred in FY23 (PY: £2.5m) relating to professional fees in respect of acquisition of National Tyre and Lodge Tyre;
- In FY22 £0.2m related to the acquisition of trade and assets of both Iverson and HaveBike;
- In FY22 £0.1m related to the acquisition of Universal.

c. During the prior period the HMRC audit into National Minimum Wage was concluded and fully settled and paid, this led to a final release of the provision of £2.2m.

d. In the current year, £3.6m of closure costs were recognised representing the costs associated with the closure of a number of garages across Autocentres after a review of the garage portfolio post-acquisition of National Tyre. In FY22 closure costs were recognised relating to the closure of a number of stores and garages following a strategic review of the profitability of the physical estate. The provision related to the impairment of right-of-use assets and tangible assets and property costs as well as ongoing onerous commitments under the lease agreements and other costs associated with the property exits. We continue to utilise the provision in the current year but have also had a release of £3.8m (PY: £8.5m) as a result of a £2.3m impairment reversal and a £1.5m change in lease terms.

Finance Expense

The net finance expense (before non-underlying items) for the 52 weeks ended 31 March 2023 was £12.1m (FY22: £11.3m) reflecting increase in bank interest due to being drawn down on the Revolving Credit Facility (RCF), partially offset by a decrease in lease liability interest due to the aging of the lease portfolio.

Taxation

The taxation charge on profit for the 52 weeks ended 31 March 2023 was £9.5m (FY22: £18.9m), including a £1.1m credit (FY22: £1.7m charge) in respect of non-underlying items. The effective tax rate of 21.9% (FY22: 19.5%) differs from the UK corporation tax rate (19%) principally due to the impact of current and deferred tax on employee share options and non-deductible expenditure on business acquisitions.

Earnings Per Share ("EPS")

Underlying Basic EPS post IFRS 16 was 18.8 pence and after non-underlying items 15.6 pence (FY22: 35.5 pence and 37.9 pence after non-underlying items), a reduction of 47.0% or 58.8% after non underlying items, on the prior year. Basic weighted-average shares in issue during the year were 217.4m (FY22: 204.7m).

Dividend ("DPS")

Following the payment of an interim dividend of 3.0p per share on 20 January 2023, the Board are proposing a FY23 final dividend of 7.0p per share (FY22: 6.0p per share) which will absorb an estimated £15.3m (2022: £13m) of shareholders' funds. It will be paid on 15 September to shareholders who are on the register of members on 11 August 2023. This results in a total of 10.0p per share for the year (FY22: 9.0p per share).

Capital Expenditure

Capital investment, excluding right of use assets, in the 52 weeks ended 31 March 2023 totalled £48.1m (FY22: £49.2m) comprising £26.6m in Retail and £21.5m in Autocentres. Within Retail, £3.6m (FY22: £11.4m) was invested in stores and £15.7m in technology systems, which included the continued development of the Group's web platforms and further investment in our data capability.

The capital expenditure in Autocentres principally related to the replacement of garage equipment and further development of Avayler (PACE), our digital garage workflow system.

Inventories

Group inventory held as at the year-end was £256.2m (FY22: £222.1m). Retail inventory increased to £202.8m (FY22: £194.5m), driven by the impact of FX and freight on stock pricing. Retail stock volumes were lower year on year.

Autocentres' inventory was £53.4m (FY22: £27.6m). The increase in inventory primarily relates to the acquisition of Lodge Tyre, as well as increased focus on tyre sales and therefore stock holding.

Cashflow and Borrowings

Operating Cash Flow was £169.8m (FY22: £131.8m), reflecting a working capital outflow of £12.9m, as Retail inventory and associated creditors normalised after Covid and we invested in Tyres stock to support a growing area. After acquisitions, taxation, capital expenditure and net finance costs, Free Cash Flow of £3.1m (FY22: -£14.9m) was generated in the year. Group Debt was £348.7m (FY22: £344.9m).

Principal Risks and Uncertainties

The Board considers the assessment of principal risks and the identification of mitigating actions and internal control to be fundamental to achieving Halfords' strategic corporate objectives. In the Annual Report and Accounts, the Board sets out what it considers to be the principal commercial and financial risks to achieving the Group's objectives. The main areas of potential risk and uncertainty in the balance of the financial year are described in the Strategic Report of the 2023 Annual Report and Accounts. These include:

- Business Strategy
    - Capability and capacity to effect change
    - Stakeholder support and confidence in strategy
    - Value proposition
    - Brand appeal and market share
    - Climate Change & Electrification

- Financial
    - Sustainable business model

- Compliance
    - Regulatory and compliance
    - Service quality
    - Cyber security

- Operational
    - Colleague engagement / culture
    - Skills shortage
    - IT infrastructure failure
    - Disruption to end to end supply chain

Specific risks associated with performance include the success, or otherwise of peak trading periods (e.g., Christmas) as well as weather-sensitive sales, particularly within the Car Maintenance and Cycling categories in the Retail business.

Jo Hartley

Chief Financial Officer
21 June 2023

Glossary of Alternative Performance Measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"), previously termed as 'Non-GAAP measures'. APMs should be considered in addition to IFRS measurements, of which some are shown on page 19. The Directors believe that these APMs assist in providing useful information on the underlying performance of the Group, enhance the comparability of information between reporting periods, and are used internally by the Directors to measure the Group's performance.

The key APMs that the Group focuses on are as follows:

1. Like-for-like ("LFL") sales represent revenues from stores, centres and websites that have been trading for at least a year (but excluding prior year sales of stores and centres closed during the year) at constant foreign exchange rates.

2. Underlying EBIT is results from operating activities before non-underlying items. Underlying EBITDA further removes Depreciation and Amortisation.

3. Underlying Profit Before Tax is Profit before income tax and non-underlying items as shown in the Group Income Statement.

4. Underlying Earnings Per Share is Profit after income tax before non-underlying items as shown in the Group Income Statement, divided by the number of shares in issue.

5. Net Debt is current and non-current borrowings, including lease debt, less cash and cash equivalents, both in-hand and at bank, as shown in the Consolidated Statement of Financial Position.

	FY23 **£m**	FY22 £m	FY20 £m
Cash & cash equivalents	32.2	46.1	115.5
Borrowings – current	(77.6)	(74.5)	(83.4)
Borrowings – non-current	(303.3)	(316.5)	(511.9)
Net Cash/(Debt)*	**(348.7)**	(344.9)	(479.8)

* The statutory 53-week period to 3 April 2020 comprises reported results that are non-comparable to the 52-week period reported in the current and prior period.

6. Net Debt to Underlying EBITDA ratio is represented by the ratio of Net Debt to Underlying EBITDA (both of which are defined above).

7. Adjusted Operating Cash Flow is defined as EBITDA plus share-based payment transactions and loss on disposal of property, plant and equipment, less working capital movements and movement in provisions; as reconciled below.

	FY23 **£m**	FY22 £m	FY20 (53 weeks) £m
Underlying EBIT	**63.6**	101.1	67.2
Depreciation, amortisation & impairment	**124.7**	106.0	118.7
Underlying EBITDA	**188.3**	207.1	185.9
Non-underlying operating expenses	**(8.0)**	6.8	(34.2)
EBITDA	**180.3**	213.9	151.7
Share-based payment transactions	**2.4**	7.8	1.0
Loss on disposal of property, plant & equipment	**1.3**	(5.2)	2.8
Working capital movements	**(12.9)**	(70.0)	52.0
Provisions movement and other	**(1.3)**	(14.7)	(3.1)
Adjusted Operating Cash Flow*	**169.8**	131.8	204.4

* The statutory 53-week period to 3 April 2020 comprises reported results that are non-comparable to the 52-week period reported in the current and prior period.

8. Free Cash Flow is defined as Adjusted Operating Cash Flow (as defined above) less capital expenditure, net finance costs, taxation, exchange movement, lease payments, and arrangement fees on loans; as reconciled below.

	FY23 £m	FY22 £m	FY20 £m
Adjusted Operating Cash Flow	**169.8**	131.8	204.4
Capital expenditure	**(54.4)**	(47.3)	(33.6)
Net finance costs	**(11.1)**	(10.6)	(13.2)
Taxation	**(4.7)**	(12.2)	(16.3)
Supplier Financing	**0.8**	-	-
Sales and Leaseback	**-**	7.5	-
Exchange movements	**(8.0)**	0.9	(2.0)
Lease payments	**(89.3)**	(85.0)	(87.7)
Free Cash Flow*	**3.1**	(14.9)	51.6

*The statutory 53-week period to 3 April 2020 comprises reported results that are non-comparable to the 52-week period reported in the current and prior period.

Halfords Group plc

Consolidated Income Statement

For the 52 weeks to 31 March 2023

For the period		**52 weeks to 31 March 2023**			52 weeks to 1 April 2022 * Restated		
		Before Non-underlying items	**Non-underlying items (note 4)**	**Total**	Before Non-underlying items	Non-underlying items (note 4)	Total
	Notes	**£m**	**£m**	**£m**	£m	£m	£m
Revenue *		**1,593.5**	**-**	**1,593.5**	1,382.4	-	1,382.4
Cost of sales *		**(808.2)**	**-**	**(808.2)**	(660.7)	-	(660.7)
Gross profit		**785.3**	**-**	**785.3**	721.7	-	721.7
Operating expenses	2	**(721.7)**	**(8.0)**	**(729.7)**	(620.6)	6.8	(613.8)
Results from operating activities	3	**63.6**	**(8.0)**	**55.6**	101.1	6.8	107.9
Finance costs	5	**(12.1)**	**-**	**(12.1)**	(11.3)	-	(11.3)
Profit before income tax		**51.5**	**(8.0)**	**43.5**	89.8	6.8	96.6
Income tax expense	6	**(10.6)**	**1.1**	**(9.5)**	(17.2)	(1.7)	(18.9)
Profit for the financial period attributable to equity shareholders		**40.9**	**(6.9)**	**34.0**	72.6	5.1	77.7
Earnings per share							
Basic earnings per share	8	18.8p		15.6p	35.5p		37.9p
Diluted earnings per share	8	18.0p		15.0p	34.0p		36.4p

* Please refer to note 11 for further information

The notes on pages 28 to 35 are an integral part of these condensed consolidated financial statements.

Halfords Group plc

Consolidated Statement of Comprehensive Income

For the 52 weeks to 31 March 2023

	Notes	**52 weeks to 31 March 2023 £m**	52 weeks to 1 April 2022 £m
Profit for the period		34.0	77.7
Other comprehensive income			
Cash flow hedges:			
Fair value changes in the period		2.7	6.5
Income tax on other comprehensive income		1.1	(1.3)
Other comprehensive income for the period, net of income tax		3.8	5.2
Total comprehensive income for the period attributable to equity shareholders		37.8	82.9

All items within the Consolidated Statement of Comprehensive Income are classified as items that are or may be recycled to the Income Statement.

The notes on pages 28 to 35 are an integral part of these condensed consolidated financial statements.

Halfords Group plc

Consolidated Statement of Financial Position

For the 52 weeks to 31 March 2023

	Notes	**31 March 2023 £m**	1 April 2022 £m
Assets			
Non-current assets			
Intangible assets		**482.0**	442.4
Property, plant and equipment		**97.8**	101.7
Right-of-use assets		**312.6**	350.2
Derivative financial instruments		**-**	-
Deferred tax asset		**10.9**	14.7
Total non-current assets		**903.3**	909.0
Current assets			
Inventories		**256.2**	222.1
Trade and other receivables		**144.6**	92.6
Assets held for sale		**1.1**	4.2
Derivative financial instruments		**-**	-
Current tax assets		**-**	3.9
Cash and cash equivalents	9	**41.9**	46.3
Total current assets		**443.8**	369.1
Total assets		**1,347.1**	1,278.1
Liabilities			
Current liabilities			
Borrowings	**9**	**(9.7)**	(0.2)
Lease liabilities		**(77.6)**	(74.5)
Derivative financial instruments	10	**(3.7)**	(0.5)
Trade and other payables		**(355.0)**	(299.6)
Current tax liabilities		**(5.0)**	(4.0)
Provisions		**(11.0)**	(20.5)
Total current liabilities		**(462.2)**	(399.3)
Net current (liabilities)/assets		**(18.4)**	(30.2)
Non-current liabilities			
Borrowings		**(34.0)**	-
Derivative financial instruments		**(0.4)**	-
Lease liabilities		**(269.3)**	(316.5)
Trade and other payables		**(3.5)**	(4.9)
Provisions		**(14.9)**	(6.4)
Total non-current liabilities		**(322.1)**	(327.8)
Total liabilities		**(784.3)**	(727.1)
Net assets		**562.8**	551.0
Shareholders' equity			
Share capital		**2.2**	2.2
Share premium		**212.4**	212.4
Investment in own shares		**(12.7)**	(11.6)
Other reserves		**(1.1)**	2.0
Retained earnings		**362.0**	346.0
Total equity attributable to equity holders of the Company		**562.8**	551.0

The notes on pages 28 to 35 are an integral part of these condensed consolidated financial statements.

* Please refer to note 11 for further information

Halfords Group plc

Consolidated Statement of Changes in Shareholders' Equity

	Attributable to the equity holders of the Company						
			Other reserves				
	Share capital £m	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	**Total equity £m**
Closing balance at 2 April 2021	**2.0**	**151.0**	**(10.0)**	**0.3**	**(2.1)**	**276.6**	**417.8**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	77.7	77.7
Other comprehensive income							
Fair value changes in the period	-	-	-	-	6.4	-	6.4
Income tax on other comprehensive income	-	-	-	-	(1.3)	-	(1.3)
Total other comprehensive income for the period net of tax	-	-	-	-	5.1	-	5.1
Total comprehensive income for the period	-	-	-	-	5.1	77.7	82.8
Other	-	-	-	-	-	-	-
Hedging gains and losses transferred to the cost of inventory	-	-	-	-	(1.3)	-	(1.3)
Transactions with owners							
Shares issued	0.2	61.4	-	-	-	-	61.6
Acquisition of Treasury shares	-	-	(3.0)	-	-	-	(3.0)
Share options exercised	-	-	1.4	-	-	-	1.4
Share-based payment transactions	-	-	-	-	-	7.8	7.8
Income tax on share-based payment transactions	-	-	-	-	-	0.4	0.4
Dividends to equity holders	-	-	-	-	-	(16.5)	(16.5)
Total transactions with owners	0.2	61.4	(1.6)	-	-	(8.3)	51.7
Balance at 1 April 2022	2.2	212.4	(11.6)	0.3	1.7	346.0	551.0

The notes on pages 28 to 35 are an integral part of these condensed consolidated financial statements.

Halfords Group plc

Consolidated Statement of Changes in Shareholders' Equity (continued)

	Share capital	Share premium account	Investment in own shares	Capital redemption reserve	Hedging reserve	Retained earnings	Total equity
	Attributable to the equity holders of the Company			Other reserves			
	£m	£m	£m	£m	£m	£m	**£m**
Closing balance at 1 April 2022	**2.2**	**212.4**	**(11.6)**	**0.3**	**1.7**	**346.0**	**551.0**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	**34.0**	**34.0**
Other comprehensive income							
Fair value changes in the period	-	-	-	-	**2.7**	-	**2.7**
Income tax on other comprehensive income	-	-	-	-	**1.1**	-	**1.1**
Total other comprehensive income for the period net of tax					**3.8**		**3.8**
Total comprehensive income for the period					**3.8**	**34.0**	**37.8**
Other							
Hedging gains and losses transferred to the cost of inventory					**(6.9)**		**(6.9)**
Transactions with owners							
Shares issued	-	-	-	-	-	-	-
Acquisition of Treasury shares	-	-	**(1.5)**	-	-	-	**(1.5)**
Share options exercised	-	-	**0.4**	-	-	-	**0.4**
Share-based payment transactions	-	-	-	-	-	**2.4**	**2.4**
Income tax on share-based payment transactions	-	-	-	-	-	**(0.9)**	**(0.9)**
Dividends to equity holders	-	-	-	-	-	**(19.5)**	**(19.5)**
Total transactions with owners						**(18.0)**	**(19.1)**
Balance at 31 March 2023	**2.2**	**212.4**	**(12.7)**	**0.3**	**(1.4)**	**362.0**	**562.8**

The notes on pages 28 to 35 are an integral part of these condensed consolidated financial statements.

Halfords Group plc

Consolidated statement of cash flows

For the 52 weeks to 31 March 2023

	Notes	**52 weeks to 31 March 2023 £m**	52 weeks to 1 April 2022 £m
Cash flows from operating activities			
Profit after tax for the period, before non-underlying items		**40.9**	72.6
Non-underlying items		**(6.9)**	5.1
Profit after tax for the period		**34.0**	77.7
Depreciation – property, plant and equipment		**28.1**	20.6
Impairment/(reversal) – property, plant and equipment		**1.2**	(0.3)
Amortisation of right-of-use assets		**77.5**	69.9
Impairment of right-of-use assets		**(2.3)**	-
Amortisation – intangible assets		**17.9**	15.8
Net finance costs		**12.1**	11.3
Loss on disposal of property, plant and equipment and intangibles		**1.7**	1.8
Gain on sale and leaseback of assets held for sale		**-**	(0.4)
Gain on disposal of leases		**(0.4)**	(6.6)
Equity-settled share-based payment transactions		**2.4**	7.8
Exchange movement		**(8.0)**	0.9
Income tax expense		**9.5**	18.9
(Increase)/ decrease in inventories		**(12.7)**	(66.7)
(Increase)/ decrease in trade and other receivables*		**(32.2)**	1.3
(Decrease)/ increase in trade and other payables*		**32.0**	(4.6)
(Decrease)/ increase in provisions*		**(1.3)**	(14.7)
Income tax paid		**(4.7)**	(12.2)
Net cash from operating activities		**154.8**	120.5
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		**(32.6)**	(58.5)
Proceeds from sale of assets held for sale		**-**	7.5
Purchase of intangible assets		**(25.4)**	(22.0)
Purchase of property, plant and equipment		**(29.0)**	(25.3)
Net cash used in investing activities		**(87.0)**	(98.3)
Cash flows from financing activities			
Proceeds from issue of share capital		**-**	61.6
Repurchase of treasury shares		**(1.5)**	(3.0)
Proceeds from share options exercised		**0.4**	1.4
Finance costs paid		**(2.5)**	(1.6)
RCF transaction costs		**(1.8)**	-
RCF drawdowns		**337.0**	-
RCF repayments		**(302.0)**	-
Repayment of borrowings		**(1.7)**	-
Interest paid on lease liabilities*		**(8.8)**	(9.0)
Payment of capital element of leases*		**(80.5)**	(76.0)
Payments relating to supplier financing		**(23.5)**	-

Receipts relating to supplier financing		**22.7**	-
Dividends paid		**(19.5)**	(16.5)
Net cash used in financing activities		**(81.7)**	(43.1)
Net (decrease)/increase in cash and bank overdrafts	9	**(13.9)**	(20.9)
Cash and cash equivalents at the beginning of the period		**46.1**	67.0
Cash and cash equivalents at the end of the period	9	**32.2**	46.1

The notes on pages 28 to 35 are an integral part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the 52 weeks to 31 March 2023

1. General information and basis of preparation

The financial information set out below does not constitute the Group's statutory accounts for the periods ended 31 March 2023 or 1 April 2022 but is derived from those accounts. Statutory accounts for 2022 have been delivered to the Registrar of Companies, and those for 2023 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The financial statements are presented in millions of UK pounds, rounded to the nearest £0.1m.

The accounts of the Group are prepared for the period up to the Friday closest to 31 March each year. Consequently, the financial statements for the current period cover the 52 weeks to 31 March 2023, whilst the comparative period covered the 52 weeks to 1 April 2022.

The consolidated financial statements of Halfords Group plc and its subsidiary undertakings, together "the Group", have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and IFRS Interpretations Committee ("IFRS IC") Interpretations as adopted by the UK Endorsement Board. The financial statements are prepared on a going concern basis and under the historical cost convention, except where adopted IFRSs require an alternative treatment. The principal variations relate to financial instruments (IFRS 9 "Financial instruments"), share-based payments (IFRS 2 "Share-based payment" and leases (IFRS 16 "Leases").

Adoption of new and revised standards

There have been no new or amended standards effective in the period which has had a material impact on the consolidated financial information.

New standards and interpretations not yet adopted

All other standards and related adoptions which have been published but not yet adopted are not expected to have a material impact on the consolidated results or financial position of the Group.

2. Operating expenses

For the period	**52 weeks to 31 March 2023 £m**	52 weeks to 1 April 2022 £m
Selling and distribution costs	**590.6**	472.6
Selling and distribution costs	**590.6**	472.6
Administrative expenses, before non-underlying items	**131.1**	148.0
Non-underlying administrative expenses	**8.0**	(6.8)
Administrative expenses	**139.1**	141.2
Operating expenses	**729.7**	613.8

3. Operating profit

For the period	52 weeks to 31 March 2023 £m	52 weeks to 1 April 2022 £m
Operating profit is arrived at after charging/(crediting) the following expenses/(incomes) as categorised by nature:		
Expenses relating to leases of low-value assets, excluding short-term leases of low value assets	**2.0**	1.6
Expenses relating to short term leases	**4.8**	8.8
Rentals receivable under operating leases	**(2.6)**	(2.6)
Landlord surrender premiums	**(1.0)**	(0.8)
Loss on disposal of property, plant and equipment and intangibles	**1.7**	1.8
Amortisation of intangible assets	**17.9**	15.8
Amortisation of right-of-use assets	**77.5**	69.6
Depreciation and impairment of:		
- owned property, plant and equipment	**28.1**	20.6
Impairment of:		
- owned property, plant and equipment	**1.2**	(0.3)
- impairment of right-of-use assets	**(2.3)**	-
Trade receivables impairment	**(0.3)**	0.1
Staff costs	**359.1**	319.5
Cost of inventories consumed in cost of sales	**792.5**	655.0

4. Non-underlying items

For the period	52 weeks to 31 March 2023 £m	52 weeks to 1 April 2022 £m
Non-underlying operating expenses:		
Organisational restructure costs (a)	**6.3**	1.1
Acquisition and investment related fees (b)	**1.9**	2.8
One-off claims (c)	**-**	(2.2)
Closure costs (d)	**(0.2)**	(8.5)
Non-underlying items before tax	**8.0**	(6.8)
Tax on non-underlying items (e)	**(1.1)**	1.7
Non-underlying items after tax	**6.9**	(5.1)

a. In the current and prior period, separate and unrelated organisational restructuring activities were undertaken. In FY22, a strategic redesign of the in-store operating model was undertaken to better meet our customers' expectations and deliver a consistent shopping experience across our estate. In FY23, the group have undertaken a restructure of the support centre.

   Costs in relation to the organisational restructuring activities are made up of: redundancy costs of £3.1m (PY: £0.3m), £1.6m (PY: £0.8m) for the replacement of the WMS system, £0.4m (PY: £nil) relating to our master data management system and £1.2m for the new system and financial dual running costs incurred in the integration of National Tyre. These costs are not part of recurring business and therefore, have been deemed non-underlying expenses.

b. In the current and prior periods, costs were incurred in relation to the investments in Axle Group, Iverson, HaveBike, and Universal.

   - £1.9m costs incurred (PY: £2.5m) relating to professional fees in respect of acquisition of National and Lodge;
   - In FY22 £0.2m related to the acquisition of trade and assets of both Iverson and HaveBike;
   - In FY22 £0.1m related to the acquisition of Universal.

c. During the prior period the HMRC audit into National Minimum Wage was concluded and fully settled and paid, this led to a final release of the provision of £2.2m.

d. In the current year, £3.6m of closure costs were recognised representing the costs associated with the closure of a number of garages across Autocentres after a review of the garage portfolio post-acquisition of National Tyre. In FY22 closure costs were recognised relating to the closure of a number of stores and garages following a strategic review of the profitability of the physical estate. The provision related to the impairment of right-of-use assets and tangible assets and property costs as well as ongoing onerous commitments under the lease agreements and other costs associated with the property exits. We continue to utilise the provision in the current year but have also had a release of £3.8m (PY: £8.5m) as a result of a £2.3m impairment reversal and a £1.5m change in lease terms.

e. The tax charge of £1.1m represents a tax rate of 13.8% applied to non-underlying items. The prior period represents a tax credit at 13.6% applied to non-underlying items.

5. Finance costs

Recognised in profit or loss for the period	**52 weeks to 31 March 2023**	52 weeks to 1 April 2022
	£m	£m
Finance costs:		
Bank borrowings	**(1.4)**	(0.1)
Amortisation of issue costs on loans	**(0.8)**	(0.7)
Commitment and guarantee fees	**(1.1)**	(1.5)
Other interest payable	**-**	-
Interest payable on lease liabilities	**(8.8)**	(9.0)
Net Finance costs	**(12.1)**	(11.3)

6. Taxation

For the period	**52 weeks to 31 March 2023**	52 weeks to 1 April 2022
	£m	£m
Current taxation		
UK corporation tax charge for the period	**8.3**	15.9
Adjustment in respect of prior periods	**1.0**	(0.4)
	9.3	15.5
Deferred taxation		
Origination and reversal of temporary differences	**1.2**	3.4
Effect of changes in tax rates	**0.3**	(1.7)
Adjustment in respect of prior periods	**(1.3)**	1.7
	0.2	3.4
Total tax charge for the period	**9.5**	18.9

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

For the period	**52 weeks to 31 March 2023**	52 weeks to 1 April 2022
	£m	£m
Profit before tax	**43.5**	96.6
UK corporation tax at standard rate of 19% (2020: 19%)	**8.3**	18.4
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**0.6**	0.3
Impact of super deduction capital allowances uplift	**(0.7)**	(1.3)
Employee share options	**0.8**	1.5
Other disallowable expenses	**0.8**	0.8
Adjustment in respect of prior periods	**(0.3)**	1.3
Impact of overseas tax rates	**(0.3)**	(0.3)
Impact of 130% capital allowances deduction	**0.3**	(1.8)
Total tax charge for the period	**9.5**	18.9

An increase to the main rate of corporation tax to 25% from 1 April 2023 was substantively enacted on 24 May 2021. This will increase the Company's future current tax charge accordingly. The deferred tax asset at 31 March 2023 has been calculated based on the rate of 25% substantively enacted at the balance sheet date.

The effective tax rate of 21.9% (2022: 19.5%) is higher than the UK corporation tax rate principally due to the impact of current and deferred tax on employee share options and non-deductible expenditure on business acquisitions.

The tax charge for the period was £9.5m (2022: £18.9m), including a £1.1m credit (2022: £1.7m credit) in respect of tax on non-underlying items.

The Group engages openly and proactively with tax authorities both in the UK and internationally, where it trades and sources products, and is considered low risk by HM Revenue & Customs ("HMRC"). The Company is fully committed to complying with all of its tax payment and reporting obligations.

At 31 March 2023, the Group has unused tax losses of £57.4m (2022: £62.6m) and fixed asset temporary differences of £36.7m (2022: £36.7m) available for offset against future profits. A deferred tax asset has been recognised in respect of £23.7m (2022: £28.9m) of the losses and £36.7m (2022: £36.7m) of the fixed asset temporary difference where management considers it probable there will be future taxable profits available for offset. The net impact of this recognition is a deferred tax asset of £5.9m in relation to losses and £9.2m in relation to fixed asset temporary differences.

No deferred tax asset has been recognised in respect of the remaining £35.3m (2022: £33.7m) relating to tax losses as it is not considered probable that there will be future taxable profits available for offset. The net impact of this balance is an unrecognised deferred tax asset of £8.8m. These losses may be carried forward indefinitely.

7. Dividends

For the period	**52 weeks to 31 March 2023**	52 weeks to 1 April 2022
	£m	£m
Equity – ordinary shares		
Final for the 52 weeks to 1 April 2022 – (53 weeks to 2 April 2021: 5p)	**13.0**	9.9
Interim for the 52 weeks to 31 March 2023 – (52 weeks to 1 April 2022: 3p)	**6.5**	6.6
	19.5	16.5

In addition, the Directors are proposing a final dividend of 7p per share (2022: 6.0p) in respect of the financial period ended 31 March 2023.

8. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares excludes shares held by an Employee Benefit Trust and has been adjusted for the issue/purchase of shares during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 52 weeks to 31 March 2023.

The Group has also chosen to present an alternative earnings per share measure, underlying earnings per share, with profit adjusted for non-underlying items because it better reflects the Group's underlying performance.

For the period	**52 weeks to 31 March 2023 Number of shares**	52 weeks to 1 April 2022 Number of shares
	m	m
Weighted average number of shares in issue	**218.9**	205.7
Less: shares held by the Employee Benefit Trust (weighted average)	**(1.5)**	(1.0)
Weighted average number of shares for calculating basic earnings per share	**217.4**	204.7
Weighted average number of dilutive shares	**10.0**	9.0
Total number of shares for calculating diluted earnings per share	**227.4**	213.7

For the period	**52 weeks to 31 March 2023**	52 weeks to 1 April 2022
	£m	£m
Basic earnings attributable to equity shareholders	**34.0**	77.7
Non-underlying items (see note 4):		
Operating expenses	**8.0**	(6.8)
Tax on non-underlying items	**(1.1)**	1.7
Underlying earnings before non-underlying items	**40.9**	72.6

For the period	**52 weeks to 31 March 2023**	**52 weeks to 1 April 2022**
Basic earnings per ordinary share	**15.6p**	**37.9p**
Diluted earnings per ordinary share	**15.0p**	**36.4p**
Basic underlying earnings per ordinary share	**18.8p**	**35.5p**
Diluted underlying earnings per ordinary share	**18.0p**	**34.0p**

9. Analysis of movements in Group's net debt in the period

	At 1 April 2022	Cash flow	Other non-cash changes	**At 31 March 2023**
	£m	£m	£m	**£m**
Cash and cash equivalents at bank and in hand (Consolidated Statement of Financial Position)	46.3	(4.4)	-	**41.9**
Bank overdrafts	(0.2)	(9.5)	-	**(9.7)**
Cash and cash equivalents at bank and in hand (Consolidated Statement of Cashflows)	46.1	(13.9)	-	**32.2**
Debt due in less than one year	-	-	-	**-**
Debt due after one year	-	(34.0)	-	**(34.0)**
Total net debt excluding leases	46.1	(47.9)	-	**(1.8)**
Current lease liabilities	(74.5)	89.3	(92.4)	**(77.6)**
Non-current lease liabilities	(316.5)	-	47.2	**(269.3)**
Total lease liabilities	(391.0)	89.3	(45.2)	**(346.9)**
Total net debt	(344.9)	41.4	(45.2)	**(348.7)**

Non-cash changes include additions of new leases, modifications to leases and foreign exchange movements and changes in classification between amounts due within and after one year.

Cash and cash equivalents at the period end consist of £41.9m (2022: £46.3m) of liquid assets and £9.7m (2022: £0.2m) of bank overdrafts.
The Group had the following committed borrowing facilities available at each balance sheet date in respect of which all conditions precedent had been met:

	2023	**2022**
	£m	**£m**
Expiring within 1 year	0.0	20.0
Expiring between 1 and 2 years	0.0	0.0
Expiring between 2 and 5 years	180.0	160.0

The facility of £180.0m (2022: £180.0m) relates to the Group's revolving credit facility. £20.0m of this balance is the overdraft on the revolving credit facility. All these facilities incurred commitment fees at market rates.

10. Leases

All leases where the Group is a lessee are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less.

i. Amounts recognised in the consolidated statement of financial position

Right-of-Use Assets

	Land and buildings £m	**Equipment £m**	**Total £m**
At 1 April 2022	345.6	4.6	350.2
Additions on acquisition of subsidiary	5.8	0.5	6.3
Additions to right-of-use assets	23.6	7.4	31.0
Amortisation charge for the year	(72.8)	(4.7)	(77.5)
Effect of modification of lease	1.0	-	1.0
Derecognition of right-of-use assets	(0.7)	-	(0.7)
Impairment	2.3	-	2.3
At 31 March 2023	**304.8**	**7.8**	**312.6**

	Land and buildings £m	Equipment £m	Total £m
At 2 April 2021	279.9	2.9	282.8
Additions on acquisition of subsidiary	82.0	-	82.0
Additions to right-of-use assets	44.6	5.0	49.6
Amortisation charge for the year	(66.4)	(3.5)	(69.9)
Effect of modification of lease	6.8	0.4	7.2
Derecognition of right-of-use assets	(1.3)	(0.2)	(1.5)
Impairment	-	-	-
At 1 April 2022	**345.6**	**4.6**	**350.2**

Lease Liabilities

	Land and buildings £m	Equipment £m	Total £m
At 1 April 2022	385.1	5.9	391.0
Additions on acquisition of subsidiary	5.8	0.5	6.3
Additions to lease liabilities	22.3	7.4	29.7
Interest expense	8.5	0.3	8.8
Effect of modification to lease	1.0	-	1.0
Lease payments	(84.6)	(4.7)	(89.3)
Disposals to lease liabilities	(1.1)	-	(1.1)
Foreign exchange movements	0.5	-	0.5
At 31 March 2023	**337.5**	**9.4**	**346.9**

	Land and buildings £m	Equipment £m	Total £m
At 2 April 2021	340.6	3.7	344.3
Additions on acquisition of subsidiary	73.2	-	73.2
Additions to lease liabilities	44.6	4.9	49.5
Interest expense	8.8	0.2	9.0
Effect of modification to lease	6.8	0.4	7.2
Lease payments	(81.7)	(3.3)	(85.0)
Disposals to lease liabilities	(7.0)	-	(7.0)
Foreign exchange movements	(0.2)	-	(0.2)
At 1 April 2022	**385.1**	**5.9**	**391.0**

Lease liabilities	31 March 2023 £m	1 April 2022 £m
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**85.0**	81.2
Between one and two years	**80.9**	80.5
Between two and three years	**67.1**	72.7
Between three and four years	**45.2**	59.4
Between four and five years	**30.3**	39.0
Between five and six years	**20.3**	26.9
Between six and seven years	**14.0**	18.7
Between seven and eight years	**11.8**	12.7
Between eight and nine years	**9.3**	10.7
Between nine and ten years	**6.0**	8.2
After ten years	**3.6**	9.0
Total contractual cash flows	**373.5**	419.0

ii. Amounts recognised in the consolidated income statement

	Land and buildings £m	Equipment £m	Total £m
52 weeks ended 31 March 2023			
Amortisation charge on right-of-use assets	72.8	4.7	77.5
Interest on lease liabilities	8.5	0.3	8.8
Expenses relating to short-term leases	4.8	-	4.8
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	2.0	2.0
52 weeks ended 1 April 2022			
Amortisation charge on right-of-use assets	66.4	3.5	69.9
Interest on lease liabilities	8.8	0.2	9.0
Expenses relating to short-term leases	6.8	-	6.8
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	1.6	1.6

iii. Amounts recognised in the consolidated statement of cash flows

The total cash outflow for leases for the period ended 31 March 2023 was £89.3m (2022: £85.0m).

11. Prior Period Misstatement

Axle Group Intercompany Sales

During the preparation of the financial statements, a consolidation error was identified relating to Axle group intercompany transactions. In the previous year elimination of intercompany sales had taken place in both the Axle group and Halfords group consolidations. £12.8m was incorrectly eliminated from Revenue and Cost of Sales within the Consolidated Income Statement for the 52 week period ended 1 April 2022.

To correct for this error in the Consolidated Income Statement, Revenue for the 52 week period ended 1 April 2022 has been increased by £12.8m with a corresponding adjustment to Cost of Sales. In correcting this error there has been no impact in overall Gross Profit or Profit for the Financial Period within the Consolidated Income Statement and there has been no impact on Net Assets or other headline accounts.