Arkadin Managed Calls

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OPERATOR: Good morning and welcome to the Halfords analyst call. Throughout today's call all participants shall be in listen-only mode and afterwards there shall be a question and answer session. I would just like to remind you this conference call is being recorded. Today I'm pleased to present Dennis Millard, Chairman of Halfords. Please begin your meeting.

DENNIS MILLARD: Thank you, Jennifer, and good morning everyone. With me I have Andrew Findlay, Finance Director, and Paul McClenaghan, our Commercial Director.

Firstly, I'm delighted to announce the appointment of Matt Davies as Chief Executive, effective immediately, as you may have already seen the announcement we released last night. This morning Matt is meeting with his Halfords colleagues and therefore, as I'm sure you'll understand, he won't be participating in this call. You will, however, get a chance to meet Matt at our interim results presentation, which is now slated for 21 November. Matt was Chief Executive at Pets at Home for eight years. He comes to Halfords with an exceptional record of customer service delivery, colleague engagement and financial performance, and we are confident in his ability to deliver Halfords' full potential. We're delighted that after only such a short period without a CEO we now have such a high calibre retailer as Matt to lead the business.

What I'd like to do now is take you through some of the highlights of our Q2 trading statement we issued this morning and then Andrew, Paul and I will be happy to answer your questions. In summary, we delivered a much improved performance in Q2, partly due to the improvement in the weather and a successful summer of sport but also our determination to actively trade the business. We do, however, remain cautious about the second half. The general economic environment is still challenging and the retail and service sectors are not getting any easier as we gear up for our important Christmas and winter season ahead.

Now if I could just highlight a few specifics. Overall we're very pleased to say we traded strongly in the second quarter with group revenues up 6.2%. Retail like for likes were up 4.6% with autocentre like for likes up 12.4%. Importantly, each of our retail categories delivered a much improved performance over Q1 and that is importantly the result wasn't just down to a strongly cycling number which you saw. We believe our trading stance and the actions we took also worked well as we continued to build on our service offering to our retail customers. An example of this is our new 24-hour online fulfilment offer which contributed significantly to a 30% increase in online revenues in Q2. We also obviously benefited from the weather being better in Q2 than in Q1 and were buoyed by the Tour de France and Olympic successes. The autocentres sales performance was at its best since we acquired the business nearly three years ago and reflects positively on the investments we've made in that business so far.

Therefore, given the strength of our Q2 performance, we now expect to deliver first half PBT of between £40 million and £42 million, which is ahead of market expectations. However, we do remain cautious, given the headwinds we're still facing, hence we maintain our planning assumptions of flat to mid-single digit negative retail like for likes in the second half. We are less cautious over the potential autocentres performance in the remainder of the year and envisage continued growth. We will continue to invest in the training and development of our colleagues to deliver sustainable medium-term growth and, importantly, quality service to our customers. A good example of this is the recent recruitment of over 450 colleagues who will focus on our retail fitting opportunity. Therefore, we're not changing our H2 assumptions but, given the Q2 performance, we now expect PBT for the full year to be at the upper half of the £62 million to £70 million range that we articulated in July.

I'd now like to hand over to Andrew who will take you through some more of the detail.

ANDREW FINDLAY: Thanks, Dennis. In the RNS you'll notice we've now split leisure into two separate categories of cycling and travel solutions. This will continue to help you and we've provided some history in the notes. As a reminder, travel solutions includes camping, touring equipment and child travel.

So let's look at our results. Cycling was our standout performer during the quarter and the half with like for like sales of +14.7% and +1.9% respectively. We are particularly pleased with the sales of our Pendleton and Boardman bikes. Both are designed by Olympic gold medallists and the range has resonated strongly with customers during the period. Car maintenance also performed well with a 2.7% growth in Q2. Our 3Bs fitting penetration was up 5.8 percentage points to 27.9% and our total in-store service income grew by over 37% in Q2. This is important progress given our H2 strategic focus and investment in the retail car maintenance fitting opportunity.

We saw an improved car enhancement performance with like for likes down 1.5%. Within this audio sales were up, reinforcing our leadership position and securing continuing support from our suppliers. Sales in car cleaning grew and, although Sat Nav sales continue to decline, we gained year on year market share in the quarter. Travel solutions delivered a much better performance in the second quarter, down by less than 1%, although the adverse weather up to early August meant a disappointing camping market for the second successive summer. In autocentres total sales were up by nearly 20% in Q2 with like for like growth of 12.4% as the business continued its expansion and investment in marketing making an impact. Autocentre tyre sales have continued to grow, now representing 16% of sales during the quarter and 14% for the half.

As Dennis said, at group level we anticipate a half year pre-exceptional PBT of around £40 million to £42 million, reflecting both improved performance and increased investment in the business. Although I'll give you more details next month at the interims presentation, it is important to recognise that we've brought forward and accelerated some of the retail opex investments into the first half of the year, including advertising, training and payroll, particularly with the successful recruitment of over 450 new fitters, as referred to by Dennis. The better than expected success of our overnight online fulfilment is also reflected in our retail cost line.

So, just to recap what Dennis said, our full year guidance and second half planning assumptions remain unchanged. We expect net debt for the half year will be around £115 million, reflecting tight cash and inventory management, and today we are reiterating the board's intention to pay an unchanged 8p interim dividend for the half.

DENNIS MILLARD: Thanks, Andrew. So, in summary, as you can see, a much improved performance for us in Q2 and, as I said earlier, we remain cautious about the second half with trading conditions still uncertain. We do, however, intend to continue to focus on what is in our control. We will continue to invest in training and development of our colleagues, with an improvement in the quality of service we give to our customers being paramount. Finally I want to reiterate how happy we are that Matt is joining us at what is an opportune time for Halfords.

Thank you very much, everybody, and we will be happy to take your questions. Jennifer, are you there?

OPERATOR: Yes, of course. My apologies. Ladies and gentlemen, if you wish to ask a question of today's conference please press 01 on our telephone keypad now. If you wish to withdraw that question you may do so by pressing 02 to cancel. They are being registered. Our first question comes from the line of John Stevenson. Please go ahead with your question. Your line is now open.

JOHN STEVENSON: Morning guys. A couple of questions, please. Firstly, on market share in cycling, I wonder if you could comment on whether you think you've taken market share over the summer? Secondly, just in terms of cycling trends in general, how much is market and how much is execution? Maybe if you can comment on areas where you feel like you've outperformed against what you would have done previously. Finally, just on customer service, given the first half performance, given you bringing forward some of the revenue costs, are you tempted to up the level of customer service investment in H2?

DENNIS MILLARD: I'll deal with a few and then I'll hand over to Paul on one or two as well. Just starting with the last one first, the customer service, I think we've made it very clear that we need to invest in raising our game as far as our customer service is concerned and we intend to do that. That is to a large extent why if you recall in the first quarter, at least at the time of David's announcement, we said that the person we were looking for to drive the business forward is somebody who had that same objective in mind and had the experience of that and hence we're delighted that actually Matt fits the bill perfectly as far as that is concerned. So, yes, we will be driving customer service.

The important point there to make is that, yes, we will invest more. The £6 million that we talked about in the first quarter that Andrew mentioned as far as investment in opex is still ring-fenced and a large portion of that is obviously the 450 colleagues we're talking about, but equally we have also for some time now, the last few months, instituted a programme looking quite clearly at what we call non-value added costs and so we'll be looking at bringing those down as well. So there's a balancing act going on.

Just getting to your question on cycling market share, we've actually got a big piece of work out now to determine more fully our market share, particularly in specific segments, so I don't want to pre-empt that and it's early days for that. As you probably appreciate, getting accurate market share information is quite difficult, given the number of independents there are in the market. We have in the past said roughly a third of the market but that obviously stretches quite differently across the categories. I'd like to think we took increased market share and particularly our Boardman and Pendleton ranges were very, very successful during this period. Paul, do you want to just talk about some of the specific things on cycling?

PAUL MCCLENAGHAN: Yes. The first thing I'd say is that we held our nerve. I think we came out of quite a tough start to the year but we believed in our brands and the offer we had so we had a very strong plan behind us to drive what was going to be an interest and demand from the consumer during the Olympic and Tour de France period. There is no doubt the exposure that Chris had during the Tour itself. I think he was very credible on the televised coverage and that helped us just to reignite the connection with the brand. So Boardman did particularly well. I think it did particularly well across the piece. It wasn't necessarily just road bikes but we saw a good mix not just on Boardman. Pendleton I think was all about Victoria and her exposure during the Olympic period. We saw a big uplift on ladies bikes during the course of the period, an incremental uplift by the way, because we kept the Apollo sales in a good place as well.

So I think we saw some new business from Victoria's range, which is exclusive to Halfords of course, and I think we saw some good business from the Boardman numbers, although we always believed we'd have a good year on Boardman. Road bikes were strong on the back of the Carrera business. We had a very good offer on road bikes, offering great value to our customers, and that worked very well. The combination of the Tour de France, our coverage on ITV, the Brownlee success in the triathlon on Boardman bikes, Victoria's success on the track, Chris' professional coverage, all helped to drive people to the brands that we have exclusively.

DENNIS MILLARD: I think also then it moved into the family cycling as well. We're focusing on road cycling here but at the end of the day it has a knock-on impact, I think, across the family. The middle-aged man in Lycra buys his racing bike, so the rest of the family will also join in on the cycling. We know Matt is a very keen cyclist with all of his family as well.

JOHN STEVENSON: Okay. Brilliant. Thank you.

OPERATOR: Our next question comes from the line of Charlie Muir-Sands from Deutsche Bank. Go ahead with your question. Your line is now open.

CHARLIE MUIR-SANDS: Good morning. Congratulations on a very good quarter. I have three questions, please. Firstly, online is obviously a very impressive performance and you've pulled out that you think that the investment you've done in that area has dodged the payoff. I wondered whether a lot of that growth was related to bikes or whether it was a broad-based acceleration in your online sales growth there. That would be my first question.

DENNIS MILLARD: Charlie, thank you very much. Paul, do you want to cover that?

PAUL MCCLENAGHAN: Yes. Hi, Charlie. We did see an uplift in cycling through order and collect. I think one of the things that next day delivery to your local store brought for our customers was the ability to find bikes that were not necessarily in full distribution. So, as we've had some of the more top end bikes in less of our portfolio customers managed to get hold of those more readily and that worked very well for bikes, particularly during the period of high demand during the Olympic period. But equally we've seen some success in people wanting to take up the order and collect offer to order product that is not available in the local store but get it delivered to the local store to experience the added value services that we offer in the store, the bike build, the sizing, the fit of the blade, the bulb and the battery. Also ICT technology ranges that we didn't necessarily carry in-store, we carry in the centre, were being well received by customers as well. So I think bikes, yes, but a combination of bikes and other areas of the business.

CHARLIE MUIR-SANDS: Great. Thanks. The second question is obviously it seems quite a sharp improvement in all of the key product categories. I wondered whether you felt that that was largely driven by the halo effect of bike footfall or whether there were other dynamics at play that drove the better performance across the board?

PAUL MCCLENAGHAN: I think there was a lot of self-help, Charlie. We have some phenomenal offers in the marketplace. We have Pioneer audio at £49, Garmin lifetime mapping at £119, the Castrol offer at £17.50, all market beating, all on TV. We ran car cleaning 20% off when the sun was shining in the moment, we had three-for-two on cycling accessories. We really worked the business hard.

CHARLIE MUIR-SANDS: Yes. Great. And then the final question was you talked about where the tyre penetration is now. Can you just remind us where it was this time last year in autocentres?

DENNIS MILLARD: It was fairly small last year, almost insignificant. We only really kicked it off about 15 months ago.

ANDREW FINDLAY: Charlie, do you remember last year we were still investing in actually the fitting equipment in the centres so it really has kind of ramped up significantly over the period.

CHARLIE MUIR-SANDS: Great. So it's up 5% last year would be a fair ...

ANDREW FINDLAY: Oh, yes. As I said on the call earlier, it is one of those things that is absolutely cash margin accretive and helps drive contribution to our fixed costs in the centres.

CHARLIE MUIR-SANDS: Absolutely. Great. Thanks very much.

OPERATOR: Our next question comes from the line of Eithne O'Leary. Please go ahead with your question. Your line is now open.

EITHNE O'LEARY: Morning, gentlemen. Just wondering in relation to the first half whether there was any material gross margin investment and whether you're now satisfied with the pricing architecture across the cycling categories?

ANDREW FINDLAY: Hello, Eithne. We did a straw poll a while ago of analysts and they were all coming at around minus 20 bps for the first half and we think we were around that number. We are very pleased with that position actually and it's in line with our broadly flat guidance all year and that really reflects two things. As Paul was saying, the success of our premium cycling which we know is lower margin percentage, which has diluted some of the margin but obviously being cash accretive, and obviously our performance in audio and Sat Nat. The strong performance we've seen there to be honest even beats our internal expectations and has had a diluted impact on that. So, all in all we're very pleased and the margin has been managed very well. With respect to the price points in cycling, it's very well managed. We've got a clear hierarchy on our product lines and, as Dennis and I said in the earlier statement, we are maintaining our guidance for the full year.

EITHNE O'LEARY: Okay. Great. Just one quick follow-up, just in relation to the dividend then. If you come in, as you've stated, towards the top end of the range, you maintain the interim dividend, are you happy on that basis to maintain the full year?

DENNIS MILLARD: We're not going to be drawn on that at this stage I think. We said 8p first half and we'll deal with that in the fullness of time.

EITHNE O'LEARY: Okay, thank you.

OPERATOR: Our next question comes from the line of Adam Cochrane. Please go ahead with your question. Your line is now open.

ADAM COCHRANE: Hi. Good morning, guys. Two questions from me. The first is you refer to the profit before tax before non-recurring items. Can you just sort of quantify or explain what those non-recurring items will be and roughly of what size? Then, secondly, just an update, if you can, on some of the trial formats that you've been -- the three stores or so and whether you've had any good learnings from them that you've managed to incorporate across any of the group at all?

ANDREW FINDLAY: Hi there, Adam. How are you?

ADAM COCHRANE: Good thank you. Yourself?

ANDREW FINDLAY: Yeah, not too bad. So non-recurring, if you remember we had the Focus provision and Focus liabilities where we made a provision for guarantees for lease arrangements we had on the demise of Focus. From the point of view of the exceptionals it's just the cash flow or release of any provision associated with that.

At this point in time we don't anticipate any. It really depends on a deal we're finalising at this point in time, so no other costs associated with exceptional items.

ADAM COCHRANE: Perfect. Thanks.

DENNIS MILLARD: Adam, I'll just talk about, as we call it, our next generation laboratory stores. We now have four of them. The most recent one was opened in Chingford. It's early days as far as we're concerned. We know that customers actually like the format as such, obviously. It is fresh, it's clean, and also we know that colleagues like the format as well because they feel that they can get to serve customers more efficiently. Having said that, we're learning as we go and each one of the learnings we're taking to whatever the next one is. Chingford, for example, which is, as I said, our newest, it has only been open about two months, that has taken some of those learnings. What we are keen to do is to trade the new format through a winter season and a Christmas season to see, once again to find if there is any new clues as to what we can take going forward. The intention is in the next few months, as leases come up for renewal and as we either move or alternatively upgrade at that point in time, hopefully with the benefit of some landlord's contribution, we will then be once again using the next gen format, so we could have up to, I think, 12 stores by the end of this year in a next gen format.

ANDREW FINDLAY: When Dennis means upgrades he means right size as in shrink the footprint.

DENNIS MILLARD: Shrink the footprint, but obviously when I say upgrade I'm talking about the feel.

ADAM COCHRANE: So it would be more a matter of upgrading them, let's say, when they come up for renewal rather than sort of rapidly going across the whole estate and rolling out?

DENNIS MILLARD: We haven't determined that, made that decision yet as to the longer term. We're still learning.

ANDREW FINDLAY: Adam, the latest one was Chingford. I don't know if you saw that, we just relocated there two months ago and that was purely as a result of a relocation and resizing activity where we had capital contribution and we decided to paint the store white and orange.

DENNIS MILLARD: But the interior is the new format. So I think that's actually a very low cost option, so to the extent that we can take advantage of that we will but as to a longer term solution as to rollout, etc, we're still learning.

ADAM COCHRANE: Okay. Thank you.

ANDREW FINDLAY: Adam, contact Craig and he'll organise a visit for you. It's just up the road.

ADAM COCHRANE: Thanks.

OPERATOR: Our next question comes from the line of Jeff Mowrey. Please go ahead with your question. Your line is now open.

JEFF MOWREY: Hi. Morning, team. Two questions, please, both around management. Can you talk about how much the dividend featured in your discussions with your new CEO? Secondly, if I think sort of more widely within the business at the kind of retail board level, how complete is the Halfords team now?

DENNIS MILLARD: The dividend, that's an interesting question. No. I mean, the discussion was more along the lines of we've got to do the right thing for the business, which we will do for the business, so there was nothing specific on that other than making sure that we invest in the business going forward and particularly in our store colleagues. So that's the one.

Sorry, the question again was ... oh, the exec team, sorry. My apologies. At the time that I came in as interim Chairman I made a statement that I was very comforted by the fact that at, as you call it, the retail board level or the executive level we have a strong team and Matt is inheriting the same strong team. The only change that we do have in our team, but was totally unrelated to anything, was our Marketing Director, Gerry Murphy, is leaving us but he is moving to New York to join up with his new wife. Other than that, the team is intact.

JEFF MOWREY: Perfect. Thank you.

OPERATOR: Please go ahead with your question. Your line is now open. This is the line of Chris Chaviaras. Your line is now open.

CHRIS CHAVIARAS: Hi, guys. Sorry, I didn't hear my name. Sorry about that. Good morning from me as well and well done for the results today. I do have two or three questions but they're very short. My first question is on the new CEO. In the release it says the new CEO will continue the existing strategy of the three pillars. I wonder how much flexibility will he have to change things in the business or he will have to follow some certain guidelines that are already in place? That's my first question.

DENNIS MILLARD: Okay, the first question is that we specifically said the three pillars of the strategy which is the broad direction of the business, which I think is quite clear and obviously Matt is quite clear about that and buys into that. We also said that at the time that we laid out the strategy there were a number of different projects and initiatives that were taking place across a broad front, some 30-odd projects. These are at varying degrees of completion or some of them haven't even started, so the whole idea is obviously for Matt to take time to get up to speed as far as those are concerned to see to what extent they will continue to drive the strategy forward and obviously there will be some changes here and there. One would expect that but one would expect that anyway because from the initial project line-up that we had some of those we'd changed already ourselves before Matt even joined, so we'd expect that to take place. So of course he'll have an input as far as that is concerned.

CHRIS CHAVIARAS: Okay. Thank you. My second one is on the economics of the multichannel, because it looks like now that multichannel sales grew by 30%. Would you say that the profitability of click and collect or online only sales is roughly the same as in-store or do you have to incur more costs in order to deliver this proposition?

DENNIS MILLARD: I think there are a number of points I want to make as far as that is concerned, as far as online is concerned. To some extent we use the online for clearance and for one-offs, so therefore by definition it attracts a lower margin but that's because we want it to do that. Also if you look at the product categories that are sold online, some of those are lower margin on average than the average for the company as a whole. So those are the first two items that you do have to take into account. The second point you have to take into account is that we're at the early stages of growing our online offer. It's roughly 10% of sales; we believe it can be a greater proportion and it will be over time. Therefore we are doing more upfront investment as we build that business. So the answer is that the profitability will obviously be at this stage lower than what you'd expect. And then there are the additional costs of order and collect. We're delivering on a 24-hour basis, as distinct from normal store inventory build which would take place either twice or three times a week, but at the end of the day the reason why we're doing it is because this is what the customer wants and this is what the customer demands so we'll supply accordingly.

ANDREW FINDLAY: Chris, just an interesting point, if you remember we talked about the number of customers that transact online and come into store. That has actually increased. It's now 89%. This time last year it was down nearer 86%, so we're still seeing an attraction for customers to transact online and come into store and therefore that increases our desire to improve our service in-store.

CHRIS CHAVIARAS: No, I totally agree and I follow the point that usually you've got lower margin products and you use the channel for clearance; I totally get that. What I'm trying to get to is that if you had the same low margin products in-store would it make the same amount of money to you or do you have to incur more costs, let's say for the delivery costs or to have an extra kiosk for people for click and collect? Is there any significant operating cost that goes with the multichannel or online sales? That is what I'm trying to get to.

DENNIS MILLARD: I think it's hard to allocate. For example, if it's collect in-store, who do you charge? Do you charge the click and collect a proportion of the store rental because it's being collected in-store? We don't look at it necessarily that way. We look at it as a chance to sell more to that customer when they come in-store and so who would get the benefit of that sale? Would it be the store or would it be the click and collect if you came in to order and collect? So I think more and more all retailers are seeing this is just another way of doing business. Of course we look at what I call the strict variable costs that you can strictly relate to order and collect, as distinct from store and vice versa, and we manage that accordingly. The new term is omni-channel, as you know.

CHRIS CHAVIARAS: Yes, it's fair. My very last one is if you can quantify or if you have done the weather impact on the travel solutions, because that did drive down the like for like there? Have you quantified that or is it possible to quantify?

DENNIS MILLARD: Obviously the area that we were affected in would have been camping. The weather improved but it only improved pretty late in the season. By that stage only a few people were going camping. So that was the biggest impact we had and the staycation holidays obviously would have affected our roof boxes, roof bars, etc. Those are the two areas.

CHRIS CHAVIARAS: If I use other retailers' comments, would you say that maybe like 200 basis points negative effects of weather on travel solutions, or are these totally out of spec?

DENNIS MILLARD: Very hard to call, to be honest. It's the same as the question of how much do you benefit purely from the Olympics. Very hard to answer that.

CHRIS CHAVIARAS: Understood. Thank you very much.

DENNIS MILLARD: We obviously benefited.

OPERATOR: Our next question comes from the line of Rowan Marron.

DENNIS MILLARD: Sorry, who was that?

OPERATOR: It was Rowan Marron.

ROWAN MARRON: Rowan. Hi, guys. Two questions for you. The first one is just a follow-up on someone mentioned earlier the extra 450 fitting staff. That's all included in the existing guidelines for the £6 million investment, so there is no incremental investment beyond that?

DENNIS MILLARD: That's correct.

ROWAN MARRON: Thank you. And the second question on the net debt, the very strong cash performance, were there any one-off benefits, maybe working capital, that you would expect to reverse in the second half?

ANDREW FINDLAY: No. It reflects a good strong management of working capital in the half. If you look at the profile of our cash profile it's very similar to the profile that you've seen in previous years but it does reflect a good control of stock in the period.

ROWAN MARRON: Okay. Thank you.

OPERATOR: Our next question comes from the line of Simon Bowler. Please go ahead with your question. Your line is now open.

SIMON BOWLER: Good morning all. Just three questions from me, if it's okay. Firstly, you've flagged before that you're expecting the summer cycling market to be strong with the Olympics and so on but also extremely competitive. Given the robust gross margin performance, was it less competitive than you had feared and if so is that something you take encouragement from going forwards?

DENNIS MILLARD: Paul will answer that question.

PAUL MCCLENAGHAN: Hi, Simon. I think that it was probably as we expected it to be. I think we were surprised by the resilience of our pricing on Boardman and Pendleton but particularly surprised how well Carrera stood up on spec versus some other brands and that really allowed us to hold our prices.

SIMON BOWLER: Okay. That's great. Secondly was just around car enhancement and the improved trends we've seen there, particularly within audio which we saw in the first quarter as well. Just wondering is growth in there sustainable and what is really driving that? Is this is a digital phenomenon coming through?

PAUL MCCLENAGHAN: Well, we've had some interesting growth out of DAB but it's still quite a small part of the business. It's around 10% of our business right now. We've certainly taken share but the market has declined slower than we expected it to, so a combination of a slower decline in the market on FM and our increasing share through some self-help on promotions has meant we've grown our numbers there.

SIMON BOWLER: Okay. Fantastic. And then finally was just a question around the increased guidance for the full year. I was just wondering how much if any of that was being driving by autocentres, given the stronger revenue trends we've seen there?

DENNIS MILLARD: No. I think our guidance that we gave earlier on is --

ANDREW FINDLAY: Autocentre guidance unchanged. All of that uplift reflects the performance of the first half.

SIMON BOWLER: Perfect. Very clear. Thank you very much.

OPERATOR: Our next question comes from the line of Mark Bentley. Please go ahead with your question. Your line is now open.

MARK BENTLEY: Good morning, Dennis. First of all let me congratulate you and the team on doing an excellent job of capitalising on the Tour de France and Olympics events. Next I just have one question, which is what shareholder consultations did you conduct regarding the appointment of Matt Davies and his remuneration?

DENNIS MILLARD: I think as far as the appointment of Matt is concerned that was a board decision and a company decision and we did not consult with any specifically.

MARK BENTLEY: Okay. I think we at ShareSoc will write to you about that then.

DENNIS MILLARD: Fine. Thank you.

MARK BENTLEY: Thank you.

OPERATOR: If you do have any questions for today's conference please press 01 on your telephone keypad now. Please go ahead with your question. Your line is now open.

GEOFF RUDDELL: Hi, it's Geoff Ruddell, Morgan Stanley. Just one question, which is obviously you've benefited significantly in cycling from the events of the summer. Do you think that's going to be a long-lasting benefit or do you think that's a sort of one quarter benefit? I guess what I'm really asking is how you exited the quarter in the cycling category.

DENNIS MILLARD: Geoff, we're not going to have an Olympics in London again in my lifetime so obviously that's in itself a one-off event, but I think the interest in cycling that has been generated is going to be enduring and I hope that's the case. Obviously for our business I hope it's the case. There's other things that we did, I think, pretty well as far as the cycling was concerned and where we think we'll be getting specific growth is that we're investing heavily in the parts, accessories and clothing side of our business, which is something that we under-punched our weight before. So you'll see quite an uplift as far as that is concerned. We've broadened and deepened the ranges quite significantly. So the answer is obviously you'd expect particularly the sale of racing cycles to have been very strong during the period. Our next sort of season that we look forward to, because obviously it goes a bit quiet now as you'd expect, would obviously be the Christmas season and our kids ranges. We have a complete new range of kids bicycles and scooters and we're looking forward to a good Christmas as far as that's concerned.

ANDREW FINDLAY: Geoff, it's Andrew. If you remember our presentation, we've seen the historic trend of 5% and obviously this uplift will bring more people into the cycling category. If you remember, we presented that on average sport and fitness cyclists spend around £200 per annum and the more people we can introduce into cycling via our great bikes the better. So, as Dennis said, we've seen a benefit but the more people that are interested in cycling benefits us.

GEOFF RUDDELL: Sure. It's obviously a favourable dynamic. I was just wondering how you'd exited the quarter in the category.

DENNIS MILLARD: We don't give that information, but obviously we weren't growing like we were during the peak of the Olympics.

GEOFF RUDDELL: But were you still growing faster than you had been pre the Olympics, well, in previous quarters, put it that way?

DENNIS MILLARD: Geoff, I'm not going to be drawn on specific sort of weekly sales. I think it's inappropriate to do that.

GEOFF RUDDELL: Okay. Thank you.

MALE SPEAKER: Jennifer, are there any more calls, any more questions?

OPERATOR: Hello. Yes. Can you not hear me?

MALE SPEAKER: Not very well.

DENNIS MILLARD: No, we can't actually. We only hear you sort of right at the end and we're not hearing who you're introducing as the questioner.

OPERATOR: Can you hear me clearly now?

DENNIS MILLARD: Yes, we can.

OPERATOR: Okay then. The next question comes from the line of Assad Malic.

ASSAD MALIC: Morning guys. It's Assad Malic here from Citi. Just a couple of questions. One on autocentres. You've talked about a good pipeline of new centres in terms of openings. Given the performance that you're having and your outlook seems to be quite confident for the second half, is there any sort of thought in accelerating that pipeline and could you give us where you intend to end up at the year end in terms of autocentre depots, please?

DENNIS MILLARD: I think at the beginning of the year Andrew mentioned we have a target of opening circa 30 centres in the current year and we believe that that's a target, that's exactly what it is. We have a pipeline of potential areas. We have a number that we're looking at now in the second half and it's a good pipeline, but at the end of the day there's no point investing in sites that actually don't make sense so we're not going to push it unless we're investing in somewhere we believe will be there for the long run. So it's not an artificial one but that's to give you a sense of the type of growth that we're looking for in the year.

ASSAD MALIC: Okay, fine, so you're still on track for that. Just coming back to the net debt, in terms of if you do come in within that range, sort of upper half of £62 million to £70 million, where would that bring you out in terms of net debt for the full year, Andrew?

ANDREW FINDLAY: I haven't given specific guidance on net debt but I think obviously we're going to continue to focus on cash and cash management and working capital and we've given guidance on where we think we'll land on the first half. It's not something we've given specific guidance at this stage but we're confident that we'll manage cash appropriately.

ASSAD MALIC: Okay. Can I just ask one last question in terms of gross margins. You've reiterated the full year sort of flat. Are you seeing any headwinds that are starting to crop up in terms of shipping costs or anything for next year that we should be aware of?

PAUL MCCLENAGHAN: Assad, it's Paul. There is some indication that there may be some headwind around freight, but I think freight is the exception I've seen so far in terms of landed costs.

ASSAD MALIC: And can you just remind us of your policy on freight costs? Are you on a rolling contract or forward contract?

ANDREW FINDLAY: Assad, we don't give that information out. It's commercially sensitive. From our perspective we manage the appropriate freight contract that fits our business and it's commercially sensible. We have a procurement team that helps manage that for us so we don't give that detail.

PAUL MCCLENAGHAN: It's a small part of the overall costs anyway. It's in the rounded almost.

ASSAD MALIC: Okay. So it's something you can manage, you think?

PAUL MCCLENAGHAN: Yes.

ASSAD MALIC: Okay. Thanks, guys.

OPERATOR: Our next question comes from the line of Simon Denison-Smith from Metropolis Capital. Please go ahead with your question. Your line is now open.

SIMON DENISON-SMITH: Morning. A couple of questions. On capex, is there any further guidance as to where this is going to end up in the end of the year?

ANDREW FINDLAY: No change. The guidance we gave at the start of the year is intact, so it's around £20 million for retail and £5 million for autocentres, so it's around £25 million for the group.

SIMON DENISON-SMITH: Excellent. And in the bicycles area, you've got this incredible increase in your online sales which is kind of reversing what was happening before. Are you seeing any trends away from collecting bikes in-store and having them delivered instead?

PAUL MCCLENAGHAN: It's Paul. No, the opposite. I think we're seeing people really keen to reserve the bike they want online and then collect and get the service that we offer in-store, the build and the advice around accessories. Also people who are coming back into cycling seek some advice. They want some reassurance about the bike being right for them and we offer that service in-store. We're seeing no real trend away from that.

SIMON DENISON-SMITH: Good. And the overall percentage of your online sales which are collected in-store hasn't changed dramatically?

ANDREW FINDLAY: Simon, you probably missed earlier that actually it has gone up to 89% of transactions online come in-store to pick up so actually there has been an increase year on year.

DENNIS MILLARD: Yes. So our direct deliveries are very low relative to say other retailers.

SIMON DENISON-SMITH: Good. Just one slightly additional question on this. In the low end area, are the main competitors sort of Argos, Tesco, that sort of thing?

PAUL MCCLENAGHAN: Are you referring to bikes again, Simon?

SIMON DENISON-SMITH: Yes, in the bicycles area.

PAUL MCCLENAGHAN: It's quite diverse. I think from time to time we may see some of the sports guys getting involved but they're very in and out. Toys 'R' Us for kids bikes at Christmas are a competitor. Argos, of course, will have a range of bikes but nothing like the scale and the credibility of our range, and equally the independent bike retailer is a competitor of ours as well. So we have to manage the bikes for what is right for our customers. We're a broad church retailer, so we offer every pricepoint from kids to adults, from hybrids to road bikes.

SIMON DENISON-SMITH: Okay, that's great. Thanks and congratulations on a great quarter.

DENNIS MILLARD: Thank you. Thank you very much.

OPERATOR: As we have no further questions, I return the conference to you.

DENNIS MILLARD: Thank you very much, everyone, for calling in. As you can see, we were pleased with our recovery in the second quarter, after a poor start from the year, and we will continue to focus on what is in our control, including the quality of service we give to our customers. Thanks for your time and we look forward to seeing you on 21 November. Thank you very much.

OPERATOR: This now concludes today's call. Thank you for all attending. You may now disconnect your lines.