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Operator: Hello and welcome to today's Halfords Group Third Quarter IMS Analyst's Call. Throughout this call all participants will be in listen-only mode, and afterwards there will be a question and answer session. I'll now hand you over to Matt Davies, Group Chief Executive, and Andrew Findlay, Group Finance Director. Gentlemen, please begin.

Matt Davies: Thanks very much Hugh. Morning everyone; thanks for joining the call. As you know, I'm Matt Davies, Chief Executive of Halfords, and with me is Andrew Findlay, our CFO. So, if I start by giving you a brief overview of this morning's statement, and then we'll be really happy to take questions. And we will try and keep the call to about 45 minutes; I think it's a – it's a busy morning for retailers and reporting, and for us this is pretty much business as usual.

So, trading: overall group revenues were up 6.5% in the period. Looking first at our retail business, our like-for-like sales increased by a very strong 6.8%, with our own actions continuing to drive the top line. This quarter's performance also illustrated that we're not reliant on one category for growth.

So, if we look at each category in turn, firstly cycling. Cycling sales were up 7.6% year-on-year, against a really tough comparative of nearly 20% growth in the same period last year. So we're really pleased that we're able to demonstrate our ability to generate good growth on good growth. 23rd December was the biggest ever day of cycling sales in our history, as parents flocked to stores to pick up their reserved bikes for Christmas. Kids' bikes represent the biggest element of cycle sales for us in the third quarter, and sales of these were up by nearly 14%, driven by our continuously improving products and service offer. Our older kids' bikes, for ages eight-plus, did particularly well, aided by our 'Does anything beat a bike?' marketing campaign, as we really focused pretty much all our TV on encouraging people to buy a bike as a – as a present for, sort of, kids over – over Christmas.

Our cycle repairs sales gained momentum, with growth of 22.4%, helped by our new operating model which we'll be rolling out across the majority of the business by the start of the next cycling season. We've now rolled it out to about 136 stores. We also opened our first Cycle Republic store in Euston Tower in December, and our second store opens in Margaret Street next week; I look forward to showing many of you around on Thursday, 29th January.

So if I move away from cycling and I turn to car maintenance, very, very strong performance, with new record levels of 3B fitting, despite Q3 actually being milder and dryer than the previous year. So we really got no help from the weather. The combination of product availability, colleague training and resource planning enabled us to really maximise sales when the brief spells of cold weather did hit the country. Just before Christmas we exceeded 100,000 3B fitting jobs in a week for the first time ever, and in the week between Christmas and New Year we recorded our highest ever weekly sales of both batteries and wiper blades.

Another driver of our car maintenance growth was workshop, with sales up 16.8% due to a much stronger range and much more compelling offers.

So if I move on to car enhancements, like-for-like sales fell by 0.3%, so the ongoing market conditions in audio and sat nav drove sales declines, but this was almost wholly offset by an excellent performance in car cleaning, with sales up 17.9%.

Moving on to travel solutions, sales grew by 5.7%, driven by travel equipment and child car seats. Also our flexible approach to front of shop space paid off, with strong sales from our fresh, seasonal gift proposition.

Our online retail sales grew by 16.5%, representing a record 13% of total retail revenue.

Turning to Autocentres, we were encouraged by the early signs of progress following the launch of the strategy by Andy Randall in November. MOTs for example, we now have got one clear price, and we're consistently at the top of the Google searches. After a decline in like-for-like sales across last year as a whole, we've now had four consecutive quarters of growth, with this period improving to 5.9% aided by lower-margin tyres. We closed one site in the period and opened a further four, including a new concept centre in Croydon. And we now approach the peak period for the business in late February and early March, so it's still really all to play for.

Moving on to financing, as a Group we continue to be highly cash generative, which has enabled us to reduce the size of our bank debt facility, whilst at the same time extending it by a further two years, and favourably amending terms.

So, just to summarise: an excellent quarter for retail, driven by our own actions, with very little support from the weather. Our Getting into Gear programme progressed well, including a further nine refresh stores open in the period. We saw progress in Autocentres; we've improved like-for-like sales. And looking ahead, full year retain gross margin is expected to be in the better half of the guided range, with retail opex at the higher end of the 5–6% range. And other than the reduction in interest costs, our expectations and guidance for the full year remain unchanged.

So thanks for listening, and Andrew and I are very happy to take any questions.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question can you please press 0 and then 1 on your phone keypad now in order to enter the queue, and after you're announced just ask your question. And if you find that that question has been answered before it's your turn to speak, just press 0 and then 2 to cancel. And there'll be a brief pause while questions are being registered.

Our first question is from the line of Matthew McEachran at N+1 Singer. Please go ahead with your question, your line is now open.

Matt Davies: Morning Matt.

Matthew McEachran (N+1 Singer): Yeah, morning guys. Well done on the good statement. Couple of questions, if that's okay. First one is really in relation to looking a bit deeper at the – the cost guidance, and specifically just if you could outline a little bit more detail about your delivery proposition. You're obviously in this very key transition phase. My understanding at this early stage is that you handled quite tough conditions, given the spikes at the end of November, early December. But maybe just talk us through a little bit how that's progressing and, you know, what sort of double-running, non-recurring costs you now expect to experience as a result.

Matt Davies: Okay. Sorry, is there a second element to it Matt?

Matthew McEachran: The other question is separate. I'll come back to that, if that's okay.

Matt Davies: Okay, that's fine. Go on then Andrew, why don't you pick that up?

Andrew Findlay: Yeah, I'll just talk about the cost perspective. Couple of things that have trickled up. As a result of the fantastic performance in 3Bs and service and our – our customer service metrics, we've accrued a small – a small amount more of incentive payments for our colleagues in store, which is great for them and reflects the great performance that we saw in – in Q3. We're looking to invest a bit more in space-swap which you've talked about in November. So we were trialling it during Q3, where we've space-swapped 11 stores, and now we're looking to accelerate that and do quite a few more in Q4 which, as a result – it's not capex investment, it's opex investment because we're moving merchandise around stores. And then, as you say – refer to, we did – we supported our logistics network during what was some record numbers we saw during the – during the quarter, particularly around Christmas Eve and around the Black Friday, but I think our whole intention there was to ensure no customer went undelivered or unserved, and we're proud to say that every kid got their bike for Christmas. So that's what we did during that period.

With respect to going forward, I'll give much more guidance around and much more clarity around that when we get to the prelims; I'll tell you exactly what – what's non-recurring and what's recurring. But, needless to say, as we move into FY16 there's a huge amount of activity that we're doing, particularly around stores and refreshes, as you know, that we intend to get to around 70–75 refresh stores by the end of this year. We're going to do another 70–75 in FY16. Each of those drives around £30–35k of opex plus the capex involved, plus we're doing a number more, sort of, space-swaps. But I'll give you more detail around that in the – in the following year. We've spoke to logistics, where we're still delivering more frequently to stores. We transferred to that pre-peak, and we're still bedding that down as we speak now. But so far, so good.

Matt Davies: What I would add, sort of, Matt, is that the last Christmas was a big Christmas from a kids' cycling perspective, and this Christmas was 14% up on kids' bikes, so we were very, very focused on making sure that every kid got their bike before Christmas. And I didn't get one email from a customer basically saying that we'd, sort of, let them down at all.

Matthew McEachran: Yeah okay. I get the picture. Thanks for that. The other thing I wanted to ask about was in relation to customer scores, customer surveys. I mean, you know, it's clear that you're lifting the whole chain. I'm just wondering whether or not you could give us a flavour of where the average score sits, and how you're faring with some of the weaker, underperforming scores against that average.

Matt Davies: Yeah, okay. So, in terms of sort of net promoter score, what we will do at the sort of full year is – is give you the update in terms of where we are. In terms of directionally, Matt, we're really happy with the progress that we're making on net promoter score. We're seeing, you know, praise increase. We're seeing sort of complaints come right down. And if I give you one example of complaints which we've really focused on, and sort of dovetails into the investment we've been making, it's how we build a bike. So, our pre-delivery inspections, we've been taking people out of store, we've been putting them through training courses, I think last week our – our complaints around – were down by approaching 50%. I mean, so we're seeing a huge, huge difference.

Matthew McEachran: Interesting, yeah. Okay. Well, that's helpful feedback, and we'll hopefully get more. Final one just in terms of your stock and stock availability, I mean you've had some good performance in certain areas. Were you held back at all in terms of lack of stock?

Matt Davies: Look, I think there is a sort of period as we came out of Christmas that our stock levels were not quite as strong as I would like them to have been, but I think you see that across pretty much all retailers and Christmas poses incredible challenge on your logistics infrastructure. But we're pretty much back to sort of strong availability, sort of, now, and, you know, Christmas was only, what, sort of three weeks ago. So I've no real sort of concerns. And if you look at the – the sort of headline like-for-like performance that we've generated, of 7%, you know, that – that comes through strong – strong availability.

Matthew McEachran: Yeah. Okay, that's great. Thanks for your help guys, and well done. Cheers.

Matt Davies: Thank you.

Andrew Findlay: Thanks Matt.

Operator: Okay, we now go over to Dan Homan at Citi. Please go ahead with your question, your line is open.

Matt Davies: Morning Dan.

Dan Homan (Citi): Morning guys, couple questions. First on marketing spend, and where you spent it year-on-year, is there any particular change in your marketing versus this time last year?

Matt Davies: No. I mean, quick answer to that: not, sort of, hugely. I mean, overall we're focusing a bit more on digital, and we didn't do TV around, sort of, 3Bs this year. So if you look at our sort of car maintenance performance it's particularly pleasing because there wasn't the TV that there was last year. Been generally moving towards digital and radio, sort of slightly away from, sort of, TV.

Dan Homan: Okay, understood. And then second question, does the recent strengthening of the dollar cause any sourcing headwinds over the next year or so for you guys?

Matt Davies: Do you want to pick that up, Andrew?

Andrew Findlay: No, no, I think, you know, we've got a pretty good hedging policy, so we're – we're in pretty good shape for the first half – for the next financial year. So it'll be nice if it strengthened over the longer-term, but I think the buying [inaudible] and we're in good shape.

Dan Homan: Okay, thank you.

Matt Davies: Thanks Dan.

Operator: We now go over to Ben Hunt at Espirito Santo. Please go ahead, your line is open.

Ben Hunt (Espirito Santo): Good morning. Good morning, I was wondering if you could tell us how the performance of premium in cycles were and PACs, and sort of tied into that, the gross margin improvement guidance. Sort of looking at the shape of sales going into Q4 clearly there's a tough comp on cycling. So you're going to get quite a beneficial effect from mix; what – what's going to be the negative things affecting your margin? Because I would have thought there could be a bit more of an improvement in the guidance in the gross margin going forward.

Matt Davies: Okay. So, if I pick up the sort of question around, sort of, premium bikes and sort of PACs, and then we'll pass over to Andrew. In terms of premium bikes, it's quite a, sort of, clouded picture, because we were doing so much, sort of, Boardman sort of clearance activity last year. So if you strip out the sort of Boardman clearance activity, we're pretty sort of happy with the, sort of, overall performance of, sort of, premium bikes, but headline it was about flat because of the, sort of, clearance.

In terms of PACs, still a lot of learnings. So our growth was running at around 5%. We've got a lot of lessons to learn around, sort of, clothing still, and I think that's one of the opportunities for us going forward as a business.

In terms of the second half of the question, Andrew?

Andrew Findlay: Yeah, so with respect to margin, you're right: the biggest impact on margin as we stand is – is mix, and we saw – we've seen that this year with the growth in cycling. Going forward, we anticipate growth in cycling to be the biggest growth area of the business, so that dilution will continue. But with respect to the alleviations against that, obviously fitting of – and 3Bs is obviously a higher margin, and cycle repairs is obviously higher margin. But as we stand today, fitting and service income, which incorporates both of those two, is still a relatively small part of the business, around £20–25 million of the business is growing. In Q3 we saw that grow by over 9%, almost 10%, but as that grows obviously that'll be beneficial. But overall as the growth in cycling grows, we will see a dilution in margin.

So, from our perspective, margin's one factor. Margin percent doesn't pay the dividend. We're absolutely focused on cash generation, and if we believe we can sell something and make money that fits within our two core categories of cycling and auto, we'll do it. So, that's the key for us.

Ben Hunt: Okay, great, thanks.

Matt Davies: Thanks a lot Ben.

Operator: We now go over to Anjli Shah of Oriel Securities. Please go ahead with your question, your line is open.

Anjli Shah (Oriel Securities): Morning.

Matt Davies: Morning.

Anjli Shah: Just quick question around car maintenance. So, particularly impressive like-for-like growth of plus-11; just turning back to, say, pre-crisis, I know that the government launched a number of initiatives in order to keep the domestic industries going. So I just wondered what percentage is a natural boom in business, and not just people undertaking MOTs now that that three-year, kind of, window is up?

Matt Davies: I mean, in terms of our, sort of, car maintenance, sort of, retain performance, there's very few external factors really driving it. And certainly I can't think of any governmental help that we're getting. And this is about a consistent focus on embracing expertise and offering customers a really powerful and compelling proposition where for pocket-money prices they can sort of turn up, and on demand, for pretty much 98% of the car park, we can replace their wiper blades and bulb and battery. So – so all sort of self-help, plus we didn't get any benefit from the weather.

In Autocentres, from an MOT perspective, you know, again, the main sort of things that certainly I've seen over the past, sort of, couple of years on MOT is just how competitive that market is, and how price sensitive that market is. But our response has been to, you know, offer one clear price – I think we're at £29.95 at the moment on MOT – and so that would be my answer.

Anjli Shah: Okay. Great, thank you.

Matt Davies: Thank you very much. Bye.

Operator: Our next question's from the line of Chris Chaviaras from Barclays. Please go ahead with your question, your line is open.

Matt Davies: Morning Chris.

Speaker (Barclays): Good morning guys. Two questions for me. Can you tell us what the We Fit penetration is at the moment, and what are the sales associated with that? I remember the last time that you had given out a number that was in the mid-20s million or so. And the second question, given that there have been already quite a few on retail and the costs, I wonder, for the Autocentres, given the good growth that you had in the second half, whether your perception of investments there change, and whether we should expect profitability and operating profit at – that – that should be in line with last year's, or what do you budget there?

Matt Davies: Okay. Do you want to pick those up Andrew?

Andrew Findlay: Yeah. So from the point of view of We Fit, you're right Chris. Last year, if you look at fitting and service income in total we were at £24.3 million in FY14. In the quarter we saw an uplift on fitting and service income of around 9%. So it was a strong growth, and our penetration on 3Bs fitting was just under 41%, so that's a great result. And we saw some record – record weeks on fitting, so we managed to fit well over 100,000 of our 3Bs in a single week, which is a new record. So we should see some good growth in that. That's obviously an area of focus for us. So, that service and fitting incorporates the bulbs, blades and batteries and repairs etc., all the fitting activity that we do.

With respect to Autocentres, our investments continue. So this year we invested in – so far we've invested in some new Bosch diagnostic equipment which has landed out in stores. We've opened a number of new centres, and we've invested in a concept centre which we're looking to learn from to upgrade some of our centres out over the coming – over the coming year.

With respect to profit guidance, our profit guidance stays as is. We see a – look to see a margin uplift in our EBITA, but it's very clear that this quarter we're walking into now is the Christmas for Autocentres. So for – as the peak of MOT and servicing comes through in March, so walking to February and March, it's the key – it's the key period, so absolutely focused on delivering that. So, we've just come out of Christmas for retail. We're now going into Christmas for Autocentres.

Speaker: Okay, thank you. If I follow up on the store growth, what is – can you reiterate the guidance there on the long-term number of new Autocentres that you'll be opening every year?

Andrew Findlay: Yeah, so we're – we're anticipating to increase our portfolio by ten to 15 centres over the coming few years, but I think the key thing for us is we are being focused in ensuring that we get quality sites, so – which we've been doing over recent months to ensure we get the right sites with the right parking, the right scale, and has the potential to offer the right environment, which incorporates some of the aspects that we're learning from in our Croydon centre. So that's the end game. But we will continue to – to close underperforming centres as we – as leases come up, as we move into others. But we should see ten to 15 over the coming – the coming year.

Speaker: Perfect, thank you.

Matt Davies: Thanks Chris.

Operator: Our next question is over to the line of Michelle Wilson at Berenberg. Please go ahead, your line is open.

Matt Davies: Morning Michelle.

Michelle Wilson (Berenberg): Hi, morning. I think most of my questions have been covered, but just maybe a couple of follow-ups.

Matt Davies: Okay.

Michelle Wilson: Just on the gross margin, when you factored in your guidance there, what have you thought about cycling in Q4? How strong do you think that will be a – I guess, again, against very tough comps from Q4 last year?

And then just on the Autocentres, was that ten to 15 centres per annum? And do you still expect that for FY15, because it seems like a few need to be added in the fourth quarter?

Matt Davies: Okay, so if I – if I sort of answer the Autocentres bit. Yeah, I mean, ten to 15, it might be a few less one year, might be a few more the other – next year, but overall that's – that's what we think the sort of right pace of opening of Autocentres is. But we still believe that there's a significant opportunity to grow that business. We just want to make sure that we can really retain our focus on quality of sites.

And in terms of the first question, do you want to pick that up?

Andrew Findlay: Yeah, to gross margin the guidance has been – been changed as a result of the strength of – of car maintenance during the Q, because that was the main driver. Within Q4, you're right, we're up against some very tough comps, but we don't guide on sales, but from our perspective at the moment we're not – we're not planning on negatives; we always talk positives at the moment. So from our perspective we've got plans in place, and we're absolutely looking to drive this side of performance in Q4. But, I think looking at it from a two-year perspective is probably a better indication, rather than looking at it from a – or year-on-year, because of the growth in cycling in Q4 was so strong. But clearly as the weather remains relatively cold it should help our car maintenance in the quarter.

So it just – you know, I think the key thing for us is Q3 performance shows that we're – we're not just a one-trick pony when it comes to the – the category growth; we have seen growth in car maintenance, and we're as focused on that as we are on bikes.

Matt Davies: I mean, just – just sort of adding to that really, I mean, I've been very conscious over the past, sort of, couple of years that focus has been very much on cycling, and I've consistently said, you know, Halfords has to be brilliant at cycling and brilliant at auto, and balance the both of them. Most of our money comes from our auto business, so it's great to see all the work that we've been doing on car maintenance sort of coming through into the numbers. You know, if it's – if it's – you know, if it's cold it really helps drive our auto sales, and it sort of gives us the margin benefit as well from, sort of, car maintenance. But irrespective of what the weather is, we're comfortable as we sit here now in terms of where consensus is.

Andrew Findlay: I – just – just to add one extra point, just to make it clear that this is an 11-week quarter; it's our shortest quarter, and typically our lightest quarter as well. So last year I think it only represented about 18% of our sales. So it's a relatively light quarter when it comes to weighting, to help you with your modelling.

Michelle Wilson: Okay, that's very clear, thank you. And just one – just one final question, just around the Autocentres: the strength of the – the tyres there, which was lower-margin, is there any guidance in terms of gross margin for Autocentres going forward?

Matt Davies: Yeah, you know, tyres is a great opportunity for us. It's very clear that it's margin-dilutive, but it's an opportunity for us. From our perspective, if it adds incremental cash to the bottom line we'll go for it, but we want to make sure in those centres it doesn't distract away from the higher-margin – higher-margin cash products. But, you know, from our perspective, if we can sell tyres and make money, we will do so. We don't give specific guidance on margin within the Autocentre business, but we've given guidance on the profit.

Michelle Wilson: Okay, thanks.

Matt Davies: Thanks Michelle.

Michelle Wilson: Thanks.

Operator: We now go to the line of Adam Cochrane at UBS. Please go ahead, your line is open.

Matt Davies: Morning Adam.

Adam Cochrane (UBS): Good morning guys, just two questions, or maybe three actually. The first one is can you sort of give us an idea of how the refreshed stores performed over peak, and whether there's any, sort of, particular categories that sort of stood out in terms of – or learnings for the following 75 that you learnt from trading through peak within those refreshed stores? And then once you complete the 75 next year, is there sort of sufficient maths in what you've seen so far to maybe do some more in the – in the outer years, albeit I accept that might not be one for you anymore, Matt.

In terms of the – the other question, it's – really is the sales uplift – is there any sort of change in ASP versus volume mix within your sort of overall – each individual category? And then the final sort of add-on one is do you think that – you talked about excellence in autos; has the, sort of, launch of Car Parts Direct been – been received well so far? Thanks.

Matt Davies: Okay, so if I sort of pick up the – the sort of first and last question, and then let – Andrew will pick up the middle one. In terms of the store refresh programme, Adam, we're – we continue to be, sort of, very, very comfortable as to the returns that it's, sort of, delivering, and it supports us doing more refreshes.

In terms of, sort of, learning over the Christmas period, I think problem – the only thing for me would be around the marketplace, making sure that we maintain enough space to trade the stores as you walk in, and to make sure that we can create the right value impression as you walk in. But looking at the performances, I mean, we look at them week by week; I mean, performances are still, you know, all – as we would – we would want to see to justify the programme continuing.

What we're doing is we're sort of finessing now what our programme's going to look like over the next sort of couple of years. There's some interesting thinking we've done around cycling and some re-categorisation sort of within cycling, to support us selling, sort of, slightly higher-priced bikes, so that – all that's going to flow through into – into our store model programme going forward. If you take a brand like 13 that we've sort of just launched, and actually online-only is doing really well, you know, we want to get that in at least a couple of hundred stores. So again, that's part of, you know, our refresh sort of thinking. Do you want to answer the second?

Andrew Findlay: Yeah, yeah. So, Adam, just to take you through where we are from a volume perspective, you know, if we focus on bikes first, I think we – overall transaction value on bikes was pretty stable. So we saw an uplift in volumes and value which was relatively equal. So it was a marginal – around 1% – uplift in ATV. But the – within kids it was a very different story in the sense that volumes in kids grew less than value, as we saw older kids' bikes coming through. So last year we sold quite a few of the younger kids' bikes; this year we saw sales of the eight-plus bikes. There was an uplift there in – in value over volume. Year-on-year, from a point of view of the adult bikes, we had a lot of sales of – we promoted a lot on Boardman last year which we didn't do this year, so that distorts things. So net-net we were okay on transaction values on bikes.

With respect to overall transaction values we are marginally up, so transaction value per customer is up very marginally, but, you know, given the strength of car maintenance, which is typically a lower transaction value because, you know, it's a bulb or wiper blade, you'd anticipate that – that it'd actually drop, but actually we've seen it grow, so that's good news. So – so the metrics are in the right way, and we saw a little bit of shift in mix within – within bikes. But overall it was – it was in line with what you'd expect.

Matt Davies: And in terms of sort of auto and Car Parts Direct, you're right in terms of Car Parts Direct is very much about building the authority of our overall auto proposition, as much as the sales that are generated from Car Parts Direct. So if you look at the sales that it's generating, it's generating around £30,000 a week, around £2 million a year, but it is much more important than that for us; it is the sort of halo effect, and it's part of us ensuring that we are perceived as the continuing specialists in auto. So if you think – if you look at our sort of maintenance performance and volume of jobs that we're doing in a week, you've got to take it all together, Adam.

Adam Cochrane: That's great. Thank you.

Matt Davies: Thanks a lot.

Operator: Just to remind all participants that if you wish to ask a question please could you press 0 and then 1 on your phone keypad now, and after I ask you, just ask your question. And if that question has been answered when it's your turn to speak, just press 0 and then 2 to cancel. And there'll be a further pause while questions are being registered.

We go back to the line of Matthew McEachran at N+1 Singer. Please go ahead, your line is open.

Matt Davies: Hi again Matt.

Andrew Findlay: Hello?

Matthew McEachran: Sorry, yeah, I was on mute. Just wanted to come back to you in relation to the query around auto, and tie it into marketing. I'm just wondering whether or not there's scope for – for you to have a new sort of figurehead with regards an advertising campaign and marketing campaign around auto, now that you've pulled together, you know, the key components of the offer?

Matt Davies: Yeah. So, it's a great question. We've started doing some work with Jodie Kidd on the auto sort of side of the, sort of, business, and we're actually sort of taking some learnings from that. But it may well be that that's part of, you know, how we drive sort of auto going forward. But the stuff with Jodie Kidd has worked – looks like it's worked quite well for us.

Matthew McEachran: Okay. Alright, thank you.

Matt Davies: Thanks.

Operator: Gentlemen, as there are no further questions, may I please pass the call back to you to close?

Matt Davies: Good. Thank you very, very much. For those people that are attending, we look forward to showing you around our Cycle Republic store in Margaret Street on 29th January. Anybody who needs any cycling kit please wait 'til then before you make your purchase, and – yeah, a belated Happy New Year to everyone.

Alright, thanks a lot. Bye.

Operator: This now concludes the call. Thank you all very much for attending. You may now disconnect.