halfords

8 September 2020

Halfords Group plc

FY21 20-week Trading Update

Halfords Group plc ("the Group"), the UK's leading provider of motoring and cycling products and services, today updates the market on its trading performance for the 20-week period to 21 August 2020 ("the period"); progress on the execution of its strategy; revised outlook comments; and release of investment case summary.

Key highlights

- The Group delivered a strong trading performance in the period, with sales up +5.0% on a LFL basis, driven by:
    - a larger cycling market and a positive impact from the current staycation trend,
    - the benefits of our new Group web platform, and
    - increasing scale in our motoring services business.
- We delivered strong growth in our areas of strategic focus: Service-related sales were up +6.3%, B2B grew +25.9% and Online sales grew +160%. We are also on track to deliver 300 bps of gross margin improvement in our Cycling business in FY21.
- Strong strategic execution and operational agility allowed us to fully capitalise on market tailwinds
- Assuming expected demand levels in September and stability in the relative value of the US dollar, underlying H1 FY21 PBT[1] is expected to be in the range of £35-40m.
- Significant uncertainty remains for H2 FY21. Given the natural fall-off in the relative strength of cycling and staycation products during winter months, alongside a difficult economic outlook, H2 FY21 PBT could be significantly lower than H1 FY21.
- Our strategy will see us further develop into areas with good long-term growth prospects, such as motoring services, B2B and electric mobility, which will also provide us with higher customer retention, more resilient demand and higher returns on capital.
- We also believe some market tailwinds, supported by Government investment in infrastructure, will continue for the medium-term.

(1) profit before tax, pre-IFRS 16

Graham Stapleton, Chief Executive Officer, commented:

"This 20-week trading period started on 4 April and therefore coincides with the most significant impacts of COVID-19 in the UK. Our number one priority has always been the health, safety and wellbeing of our colleagues and customers, and on behalf of our Board, I would like to express my sincere gratitude to our dedicated colleagues and loyal customers for their support and patience during such a challenging time.

We are pleased to have delivered a strong trading performance during the period. We have been able to move quickly in order to capitalise on the continued strong demand for cycling products, with sales of electric bikes and scooters up 230% year-on-year, while cycling services have been boosted by our free 32-point bike check and the Government's Fix your Bike Voucher scheme. We have also seen a return to growth in our motoring business, driven by an increase in car journeys and by a high level of demand for staycation-related products such as roof bars and roof boxes.

It has been especially encouraging to see our investments in key strategic initiatives both drive, and enable, such a resilient performance, allowing us to capitalise on favourable market shifts. In the last 12 months we have tripled our investment in the ongoing development of our web platform to enable a dramatic shift to online ordering, with sales up +160% year-on-year and representing 54% of total revenue in the period. We have also reaped the benefits in motoring services of a more scaled operation, a Group web platform, a best-in-class digital operating model in our garages and a new media campaign to raise awareness of our unique proposition. And our strategic focus on B2B channels continues to drive strong double-digit growth.

However, there is still significant uncertainty around the impact of COVID-19 and the macro-economic environment in the coming months, and as a result we are cautious on the outlook for the remainder of this year. Looking further ahead, we are confident in the long-term strategy of our business and in the growth prospects of the cycling and motoring markets in which we operate."

Trading performance for the 20-week period ended 21 August 2020

% change, year-on-year	**P1** 4 Apr – 1 May	**P2** 2 May – 29 May	**P3** 30 May – 3 Jul	**Q1** **4 Apr – 3 Jul**	**P4** 4 Jul – 31 Jul	**P5** 1 Aug – 21 Aug	**YTD** **4 Apr – 21 Aug**
TOTAL REVENUE							
Halfords Group	-19.3	-4.0	+14.3	**-2.8**	+25.3	+29.6	**+7.5**
Retail	-18.8	-8.0	+8.9	**-5.8**	+20.8	+24.2	**+3.8**
Autocentres	-21.9	+21.0	+45.7	**+14.8**	+54.7	+65.2	**+30.2**
LIKE FOR LIKE ("LFL") REVENUE							
Halfords Group	-23.0	-7.2	+10.1	**-6.5**	+21.4	+30.9	**+5.0**
Retail	-20.8	-5.9	+11.2	**-4.3**	+23.2	+32.9	**+7.0**
Motoring	-62.1	-48.4	-24.8	**-45.4**	-0.3	+7.1	**-28.6**
Cycling	+43.9	+57.2	+65.9	**+57.1**	+59.1	+71.0	**+59.1**
Autocentres	-46.9	-15.1	+3.6	**-19.2**	+9.7	+18.7	**-7.6**
Number of weeks	4	4	5	**13**	4	3	**20**

A strong trading performance driven by a larger cycling market and strong demand for staycation products, alongside the benefits seen from our new Group web platform and increasing scale in our motoring services business

Financial highlights

- Group revenue was up +7.5% and +5.0% on a L4L basis, with growth accelerating strongly throughout the period.
- Strong underlying improvements in gross margin, where our Cycling optimisation plan is gaining real traction. Coupled with recent growth in our higher-margin motoring services segment, the stronger cycling margin is helping to partially offset the mix impact of unprecedented growth in the category.
- Liquidity was strong throughout the period, with net cash of £105m on 21 August 2020, approximately £70m better than the same date last year, driven in part by lower cycling stock levels but also by strong cash management and planned faster stock turn as a consequence of improved lead times, the consolidation of ranges and better sell-through.
- In Retail:

  - Cycling LFL revenue was up +59.1%, with strong growth across all product categories and up +76% in our performance cycling business, Tredz. Driven by an increased focus on bringing unique and differentiated products to market, sales of new products were up 114% in the period, with our new Carrera range a notable highlight.
  - Motoring LFL revenue was down -28.6% for the 20-week period but returned to growth in period 5. An increase in car journeys and our unique fitting proposition drove strong growth in 3Bs (batteries, bulbs, blades), which were up +13% in periods 4 and 5, whilst staycation-related products, such as roof bars and boxes, grew +28.4% in the same period. Demand for more discretionary products, technology in particular, remained subdued.
- In Autocentres:
  - Total revenue was up +30.2%, with our acquisitions of McConechy's and Tyres on the Drive contributing significantly. On a LFL basis, revenue was down -7.6% overall but was in growth from June onwards, as we benefitted from increased customer traffic from our recently-launched Group web platform, and reaped the customer and operational benefits of upgrading our digital operating model ('PACE') towards the end of FY20.
  - Demand for our mobile services proposition remained high throughout the period, with record job numbers and sales over the summer period as the benefits of convenience resonated with customers and our increasing scale allowed a broader geographic reach.
- We delivered strong growth in our areas of strategic focus: Online sales grew +160%, Service-related sales were up +6.3% and B2B grew +25.9% in the period.

Strategic highlights

Our long-term strategy, which will ***evolve Halfords into a consumer and B2B services-focussed business, with a greater emphasis on motoring and a more profitable cycling category***, remains unchanged. In our preliminary results on 7 July 2020 we laid out our strategic focus for FY21, which was centred on adapting quickly to new customer trends and laying strong foundations for FY22. Less than halfway through FY21, we have made significant progress towards these objectives and some highlights are detailed below:

- Services:
  - Service-related sales grew +6.3% in the period, driven by last year's acquisitions of McConechy's and Tyres on the Drive, as we scaled our motoring services business to take share in a highly fragmented market.
  - We added 16 Mobile Expert Vans to serve the increased demand for this channel, taking the current total to 91 vans, well progressed towards our target of 125 vans by the year-end.
  - Similar to sales of cycling products, we also delivered strong growth in Cycling Services, up +17.5% in the 20-week period and +48% in periods 4 and 5, boosted by our free 32-point bike check and the Government's Fix your Bike Voucher scheme, of which we've taken a sizeable share.
  - We invested in a media campaign to drive awareness of our integrated motoring services offer across retail stores, garages and mobile vans. This drove considerable uplift in awareness metrics and boosted consideration of Halfords by nearly 40%.
- Cycling profitability:
  - We are on track to improve our Cycling gross margin by 300 bps in FY21, driven by more favourable buying terms, component rationalisation and more effective promotional activity.
- Cost and Efficiency:

- Regardless of stronger than expected sales so far this year, we will continue to target operating cost reductions across the Group, through location closures, labour efficiencies, and other initiatives. Specifically, as announced in our preliminary results on 7 July 2020, we have accelerated the right-sizing of our physical estate (across both stores and garages) that was already underway prior to the COVID-19 outbreak. We are making good progress towards our target of closing up to 10% of our property estate in FY21 (c. 80 sites), of which we have exited 22 Cycle Republic stores and seven additional stores and garages so far this financial year.

The successful execution of our strategic areas of focus in FY21 and a strong balance sheet to enable further investment, will place the Group in a strong position to continue its strategic journey in FY22. Notwithstanding the near-term challenges, the successful execution of our strategy has enabled us to capitalise on market tailwinds, some of which we believe will continue for the medium-term even if H2 proves to be more difficult than H1. Higher levels of bike ownership are likely to drive longer-term demand for accessories, servicing and replacements; avoidance of public transport and the consequential increase in shorter car journeys may lead to higher servicing requirements; and the staycation trend could continue for the foreseeable future given fears of travelling abroad.

For the longer-term, we remain confident in our strategy and the underlying strength of the markets in which we operate. We have a market-leading retail business, supported by strong omni-channel capabilities and a strong portfolio of unique and differentiated products and services. Our strategy will also see us further develop into areas with good long-term growth prospects, such as motoring services, B2B and electric mobility, which will also provide us with higher customer retention, more resilient demand and higher returns on capital.

Outlook

In our preliminary results announcement on 7 July 2020, we provided details of potential outcomes for profit and net debt based on differing LFL trading scenarios for the remaining three quarters of the year. This provided insight on the margin and cost impact of a higher cycling mix and the incremental costs of operating with COVID-19. These factors have not changed and so the relative dynamics of the scenarios remain valid today when applied to a range of possible performance outcomes. Since our last market update, our trading performance has strengthened and the seven weeks since Q1 were significantly better than we anticipated in early July. This has given us more confidence in our profit[2] outturn for H1, which, assuming expected levels of trading in September and stability in the relative value of the US dollar, we now expect to be in the range of £35-40m.

Beyond H1, there remains too much uncertainty in the trading environment to provide meaningful full year guidance. Within our own business there are stark differences in the relative performance of product categories and this is exacerbated by extreme uncertainty on macro factors such as the impact of second waves of COVID-19, an economic contraction driven by rising unemployment, and the impact of Brexit. Like most retail businesses currently, relatively high operating leverage and a highly uncertain trading environment mean that the range of possible profit outcomes for H2 is very wide. The macro headwinds we are likely to face, the continuing cost of operating with COVID-19, and a natural fall-off in the relative strength of cycling and staycation products during the winter months, means that profit in the second half could be significantly lower than the first half.

(2) Underlying profit before tax, pre-IFRS 16

Investment Case

Our investment case can be found on our corporate website using this link: https://www.halfordscompany.com/investors/investment-case/

Next trading statement

We will report our interim results on 18 November 2020.

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Conference call

A conference call for analysts and investors will be held today, starting at 08:30am UK time. Attendance is by invitation only. A transcript of the call will be available at www.halfordscompany.com in due course. For further details please contact Powerscourt on the details above.

Notes to Editors

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

Halfords is the UK's leading provider of motoring and cycling products and services. Customers shop at 444 Halfords stores, 3 Performance Cycling stores (trading as Tredz and Giant), 367 garages (trading as Halfords Autocentres and McConechy's) and have access to 91 mobile service vans (trading as Halfords Mobile Expert and Tyres on the Drive). 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