halfords

25th January 2024

Halfords Group plc

Q3 Trading Update: Financial Year 2024

Continued share gains and focus on motoring services drove resilient performance in Q3, despite challenging market conditions.

Cost savings ahead of expectations.

Strong start to Q4 trading, FY24 profit guidance maintained.

Halfords Group plc ("Halfords" or the "Group"), the UK's leading provider of Motoring and Cycling services and products, today announces its Q3 Trading update for the 13 weeks to 29 December 2023 ("the period").

Q3 FY24

Group revenue summary

	Q3: Growth vs FY23		39 wks YTD: Growth vs FY23	
	Total	LFL	Total	LFL
Halfords Group	**1.6%**	**2.0%**	**9.5%**	**6.0%**
Autocentres	**4.1%**	**5.1%**	**22.4%**	**12.4%**
Retail	**(0.1%)**	**Flat**	**2.1%**	**2.7%**
Motoring	0.7%	0.7%	5.4%	5.6%
Cycling	(1.2%)	(1.2%)	(2.5%)	(2.3%)

- Group revenue grew +1.6% and +2.0% LFL in the quarter, with stronger sales in Motoring and needs-based categories partly offset by weaker spend in discretionary areas.
- Whilst October and November sales were strong, sales in December were much weaker, driven by a combination of mild and wet weather impacting demand for winter products and footfall into stores, and customers balancing difficult spending decisions in the lead up to Christmas.
- This effect was most pronounced in Retail Motoring, where monthly LFL growth averaged +10.2% in October and November but fell to a -15.3% decline in December. In January, we have seen sales growth in Retail Motoring return to the levels seen in October and November as conditions normalised.
- **Market share gains** continued in all four of our key markets (being Retail Motoring, Cycling, Consumer Tyres and Motoring Servicing) as we successfully navigated a difficult trading environment and continued to execute our strategy. However, market volumes remained below expectations: Cycling market volumes were down (5.1%) in Q3 and are c. 28% below pre-pandemic levels, whilst the Consumer Tyres market was down (2.6%) in the quarter and is c. 14% lower than pre-Covid.
- **Autocentres:**
  - Continued to deliver robust LFL growth, with YTD in double-digit growth. This was against a strong prior year comparator and was driven by further improvements to our customer proposition, optimising our online platform and a clear focus on value to support customers through the ongoing cost-of-living crisis.

- The Consumer Tyres market remained subdued, with drivers continuing to delay essential maintenance for longer than anticipated. Recent data from TyreSafe estimates that one-in-four tyres on Britain's roads could be illegal, equating to just over 10 million tyres. In our Autocentres, we are also seeing an upward trend year-on-year in the number of cars with tyres classed as unsafe with a tread depth below the legal limit of 1.6mm.
  - Growth in the Motoring Services market softened in the quarter, reflecting the ongoing impact of changing MOT seasonality caused by Covid disruption. Over a full 12 months, the MOT market is expected to grow marginally in FY24, slightly higher than our initial expectation of broadly flat.
- **Retail:**
  - A resilient performance against very strong motoring comparators.
  - As referenced above, Motoring sales were adversely impacted by very few days of sub-zero temperatures, particularly relative to December 2022. Whilst weather still affects short-term sales trends, our strategic shift towards Services and B2B means the Group is now much less prone to such impacts.
  - Cycling LFL decline of (1.2%) was an improvement on H1 and reflected continued share gains in a market that was down (5.1%) on a volume basis vs prior year. This represented a strong performance, with Kids Bikes up +5% in December, and Tredz taking significant share in a challenging market, up 20% in the quarter versus FY23.
  - Our mix of own brand products and strong relationships with supply partners has meant that stock has been well controlled over the quarter, with inventory volumes materially lower than last year and expected to remain lower at year end.
- **B2B revenue** continued to perform strongly, up 6.9% versus the prior year and driven by robust growth with our Fleet customers.
- We expect a **cash inflow in H2** resulting in a small net debt position at the year-end, excluding lease debt.
- In what remains a challenging consumer environment, we are continuing to sharpen our focus on what is within our control, including:
  - Announcing today a **strategic partnership with specialist tyre distributor Bond International**. The agreement is expected to come into effect this financial year, resulting in a cost reduction of c.£5m per annum from FY25 onwards, as well as better service for our customers and improved operational processes in our Autocentres. Over time, the partnership will also unlock buying synergies and significantly improve working capital. The closure of our existing tyre supply operation will result in a non-underlying P&L charge in FY24.
  - **Rolling out our Fusion concept** to 10 towns following successful trials in Colchester and Halifax, where we have seen a near doubling of revenue and an even greater increase in EBITDA in the garages in those towns. Project Fusion enhances the motoring services offer in a town, improving both the Retail store car park and Autocentres garage experience through a more seamless operation and improved customer experience. The towns have been identified and we are targeting a launch date in Q1 FY25.
  - **Successfully managing costs** and continuing to identify further structural opportunities. We now expect cost savings in FY24 to exceed £35m, an upgrade to the £30m target announced previously.

Outlook

The Group continues to deliver revenue growth in a very challenging consumer environment, highlighting the benefit of our strategic shift to needs-based, service-related revenues, focussed on motoring. Whilst our cost and efficiency programme continues to perform well and we continue to take share across all four of our core markets, the Cycling and Consumer Tyres market are performing significantly worse than anticipated and have weakened in Q3.

Notwithstanding this and assuming that markets do not weaken further in Q4, we continue to expect PBT to fall within the previously communicated range of £48m to £53m. Whilst Q3 sales were below expectations, a strong start to Q4 trading, further cost action and resilient areas such as B2B performing well, mean that we are confident in the Q4 outlook.

Looking to FY25, we will focus on driving profit growth through a combination of further cost savings, more profitable sales, and leveraging our Motoring Loyalty Club. We remain cautious on market recovery in the short-term and we are not currently planning for a material improvement in our key markets in FY25.

Looking beyond FY25, we remain confident in the mid- and long-term future of Halfords and believe the business will be exceptionally well positioned when markets recover. Our scale, brand recognition and market leadership provide us with a platform that has significant competitive advantage. Given volumes in the Cycling and Consumer Tyres markets are below pre-pandemic levels by c. 28% and c. 14% respectively, a market recovery alongside continued delivery of the strategy gives us confidence in our ability to grow profit significantly in the future.

Graham Stapleton, Chief Executive Officer, commented:

"In what remains a very challenging time for our customers, we are pleased to have delivered a resilient performance in Q3. Against the current backdrop, our continued strategic shift towards needs-based and motoring service-related revenues has never been more relevant. However, we are still seeing drivers delay essential maintenance and there is a worrying increase in potentially unsafe vehicles on the road. Recent TyreSafe data estimates that one-in-four tyres on Britain's roads could be illegal, equating to just over 10 million tyres.

We are continuing to grow share across all of our markets and are confident that the business is very well-placed to drive significant profit growth once those markets recover. Trading in Q4 has begun strongly and we remain focused on everything that we can control, with a number of initiatives underway to achieve further efficiencies within the business, as well as investing in areas where we see real opportunities for future growth."

Market Volume and Share (fig.1)

Market Volume and Share	Retail Motoring	Cycling	Consumer Tyres	Motoring Servicing
Market Volume				
Growth forecast in FY24[1]	+0.5%	-1.0%	+2.6%	Broadly flat
Market Volume Movement **Q3** FY24 vs FY23[1]	+0.2%	-5.1%	-2.6%	-1.6%
Market Volume Movement **YTD** FY24 vs FY23[1]	+0.8%	-5.6%	-1.0%	+1.7%
Market Share (volume)				
Share expectation in FY24[2]	+0.6ppts	+0.7ppts	+0.2ppts	+0.2ppts
Share movement **Q3** FY24 vs FY23[1]	+0.7ppts	+1.0ppts	+0.4ppts	+0.2ppts
Share movement **YTD** FY24 vs FY23[1]	**+3.0ppts**	**+1.7ppts**	**+0.4ppts**	**+0.2ppts**

[1]Sources: Market Volume data: Retail Motoring, GFK; Cycling, Bicycle Association; Consumer Tyres, GFK; Motor Servicing – MOT data from DVSA
[2]Halfords targets

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Notes to Editors

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Halfords is the UK's leading provider of motoring and cycling services and products. Customers shop at 386 Halfords stores, 3 Performance Cycling stores (trading as Tredz and Giant), 645 garages (trading as Halfords Autocentres, McConechy's, Universal, National Tyres and Lodge Tyres) and have access to 266 mobile service vans (trading as Halfords Mobile Expert, Tyres on the Drive and National) and 554 Commercial 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.