halfords

17 June 2021

Halfords Group plc
Preliminary Results: Financial Year 2021

Strong performance driven by share gains in Motoring services, profitability improvements across the Group, and share gains and strong demand in Cycling.

Halfords Group plc ("Halfords" or the "Group"), the UK's leading provider of Motoring and Cycling products and services, today announces its preliminary results for the 52 weeks to 2 April 2021 ("the period"). To aid comparability, all numbers shown are before the impact of IFRS 16, before non-underlying items, and on a 52-week basis, unless otherwise stated.

Overview

FY21

- Grew market share in Motoring Services and Cycling; strong growth in areas of strategic focus - Group Services, B2B and Online; delivered significant cost efficiencies.
- Underlying Profit Before Tax of £96.3m, +£40.4m above last year.
- Strong cash generation; year-end Net Cash of £58.1m, including certain non-recurring benefits.
- Proposed final dividend per share of 5p.

FY22

- Building on strong foundations, we will accelerate investment in our transformation and position the business for long term success.
- Confident in our prospects but conscious of continued COVID-19 volatility; targeting profit before tax, post-IFRS 16 adjustments, of above £75m and a proposed full year dividend per share of 9p.

Long term

- Confident in the long-term growth prospects of the motoring and cycling markets and our ability to compete strongly in each.
- Significant growth opportunity in our Services and B2B businesses.
- Ambition to become the market leader in electric mobility services and support the UK's switch to a more sustainable future.
- Progressive dividend policy.

Graham Stapleton, Chief Executive Officer, commented:

"We are delighted to have delivered a year of very strong financial and operational progress, especially in light of the extraordinary challenges presented by the pandemic. As ever, I would like to thank our outstanding colleagues across the business for their hard work, professionalism, and dedication.

It was a year in which Halfords' transformation into a service-led business was rapidly accelerated, and we were particularly pleased to achieve a record revenue performance in the strategically important area of Motoring services. We have continued to increase our scale and capacity in this area and customers can now receive our services at almost 800 fixed locations, or at home from one of our 143 mobile expert vans.

We have also continued to lead the transition to an electric vehicle future by investing in training and technology. By the end of the current financial year, we will have trained more than 2,000 of our store and garage colleagues to service electric cars, bikes and scooters.

Demand for our services remains strong in the new financial year, and our touring categories are currently performing particularly well given the trend towards staycations this summer. In the longer-term, we remain confident in the future prospects for the UK's motoring and cycling markets and our ability to compete strongly in both."

Group financial summary

	FY21 (52 weeks) £m	FY20 (53 weeks) £m	FY20 (52 weeks) £m	52-week change	52-week LFL* Change
Revenue	**1,292.3**	**1,155.1**	**1,142.4**	**+13.1%**	**+13.9%**
Retail	1,039.8	961.0	950.6	+9.4%	+14.6%
Autocentres	252.5	194.1	191.8	+31.6%	+9.7%
Gross Margin	***50.8%***	***51.1%***	***51.1%***	***-34bps***	
Retail	*48.3%*	*48.2%*	*48.2%*	*+10bps*	
Autocentres	*61.1%*	*65.4%*	*65.5%*	*-440bps*	
Underlying EBITDA*	**139.8**	**92.6**	**95.3**	**+46.7%**	
Underlying Profit Before Tax ("PBT")*	**96.3**	**52.6**	**55.9**	**+72.3%**	
Net Non-Underlying Items, pre-IFRS 16	(37.3)	(32.1)	(32.1)		
Impact of IFRS 16	5.5	(1.1)	(1.1)		
Profit Before Tax, after impact of IFRS 16	**64.5**	**19.4**	**22.7**	**+184.1%**	
Underlying Basic Earnings per Share*	**40.7p**	**22.9p**	**24.3p**	**+67.5%**	

**Before IFRS 16, before non-underlying items. *Alternative performance measures are defined and reconciled to IFRS amounts in the glossary on page 21. The LFL change measure adjusts for the in-year store openings and closures, and acquisitions.*

Key highlights

- Autocentres, including our Halfords Mobile Expert vans ("HME"), gained significant market share, growing 9.7% LFL against a backdrop of traffic more than 25% below pre-pandemic levels.
- Strong growth in our areas of strategic focus: Group Services growing +23%, B2B +40% and Online +110%.
- In Retail:
  - LFL sales growth of +14.6% (total revenue +9.4%), with cycling +54.1% LFL and motoring down -12.1% LFL.
  - In Motoring, essential products such as 3B's ("Blades, Bulbs and Batteries") outperformed traffic levels, whilst touring, car cleaning and maintenance products finished in strong growth.
  - In Cycling, we refreshed over 50% of our Adult bikes, attracting new and existing customers with our award winning and exclusive own brand bikes.
  - Strong Cycling services growth of +51%, fulfilled by our national coverage of technicians.
  - Tredz grew revenue by +66% and profit by £7m YoY, as we focussed our investment on one performance cycling brand following the closure of Cycle Republic.
- In Autocentres:
  - Total revenue growth of +31.6% (+9.7% LFL) and EBIT, before non-underlying items and IFRS 16 adjustments, of £12.7m, +89.6% higher than last year. An exceptional performance reflecting significant market share gains.
  - Strong growth of our Halfords Mobile Expert ("HME") vans business, growing revenue by +200% and finishing the year with 143 vans, 14 hubs and over 250 technicians, with established hubs now profit accretive to the Group.
  - Expanded our coverage of the commercial market through the acquisition of Universal Tyres, adding 20 garages to our fixed estate and 89 commercial vans.

- Electric mobility:
  - E-mobility sales (i.e., e-bikes, e-scooters and associated accessories) up +94%
  - By the end of FY22, more than 2,000 of our store and garage colleagues will be trained to service electric vehicles, bikes and scooters.
- Group gross margin declined by -34bps, reflecting a +680bps improvement in Cycling and underlying improvements in the Autocentres businesses, largely offsetting the adverse mix impact of a -12 percentage-point change in high-margin motoring revenues as a percentage of Retail sales and the full year mix impact of the McConechy's and Tyres on the Drive acquisitions.
- Operating costs were tightly controlled, increasing +5.6% before non-underlying items and IFRS 16 adjustments, decreasing as a proportion of revenue by -3.1ppts. Costs of operating with COVID-19 were significant, approximately £33m across the Group. The Group was also eligible for business rates relief, totalling £39m.
- Profit Before Tax ("PBT"), pre-IFRS 16 and before non-underlying items of £96.3m. PBT after the impact of IFRS 16 and including non-underlying items of £64.5m, +£41.8m above FY20.
- Free Cash Flow of £145.3m driven by strong profit generation, lower cycling stocks due to global supply constraints, and our actions to preserve cash throughout the pandemic.
- Non-underlying items were £37.3m, the majority of which are non-cash in the year and are mainly related to the previously announced closure of 55 stores and garages, following a strategic review of low-return locations.

Current trading and Outlook
We have seen positive momentum carry forward into the first 9 weeks of FY22, with demand for our motoring services strong, cycling demand remaining elevated, and staycation products popular in Retail motoring. The two-year LFL growth rates (vs. FY20) for the first nine weeks of FY22 were as follows: Retail Motoring 6.6%, Retail Cycling 42.0%, Autocentres 6.6%.

Although we expect a continuation of the volatile and unpredictable trading seen throughout FY21, we are positive on our prospects for FY22. In the short term, we expect the market share gains we have made across our Autocentres business to continue, alongside an increase in more regular and routine motoring journeys. Within our Retail business, pent-up demand and the restrictions on foreign travel will give rise to increased demand for our touring and cycling products, whilst motoring products should benefit from more normalised traffic patterns.

There are, however, external factors that add uncertainty to our outlook. Supply challenges for Cycling products remain acute, and a return to normal trading patterns remains highly uncertain, particularly in H2, as the hospitality industry and international travel potentially reopen to a greater extent. The general economic outlook remains challenging, with consumers likely to be more cautious and expecting greater value from their purchases. We will address this by making a significant investment in pricing in our Retail Motoring business. Although this may impact FY22 gross margins, we are confident it will strengthen the business in the medium and long term. After the strong start to the year, and in consideration of these factors, we are targeting FY22 profit before tax, including IFRS 16 adjustments, of above £75m.

In the longer term, we are confident in the outlook for the motoring and cycling markets and our ability to compete strongly in both. We have demonstrated the resilience and growth opportunity in our Services and B2B businesses by gaining market share through increasing scale and convenience alongside enhancing the overall customer experience. We also believe that the increased adoption of Cycling will continue, supported by Government investment and a societal need to tackle climate change. As a business, we will continue to drive our markets by launching more new and exclusive products, becoming the market leader in electric mobility as the UK switches to a sustainable future, and continuing to engage our customers by creating a seamless digital and physical experience. Building on the strong foundations we have created in FY21, Halfords is well-positioned to accelerate its transformation journey.

Capital structure and dividend

We have finished the financial year with a strong balance sheet, ending with net cash of £58.1m, although some of this is non-recurring, and will unwind as inventory levels return to optimal levels and the timing of creditor payments normalises. This financial strength gives us the ability to invest in our transformation plan, positioning the business for long-term success. Considering this opportunity, we have updated our capital allocation priorities as follows:

1. Maintaining a prudent balance sheet
2. Investment for growth
3. M&A, focused on Autocentres
4. Progressive dividend policy
5. Surplus cash returned to shareholders

Our maximum Net Debt: EBITDA ratio, on a pre-IFRS 16 basis, remains at 1.0x, or up to 1.5x on a short-term basis to fund M&A activity. However, given the current strength of our balance sheet and the uncertain economic environment, we will operate with more prudent debt levels in the near-term.

With a robust and proven strategy, it is imperative we invest in our transformation plan, which we believe will require between £50m and £60m per year of capital expenditure in the medium-term. Our growth plan will be complemented by acquisitions if we are able to find attractive businesses, with the right strategic fit and for a fair price. Our acquisition strategy will be focussed on scaling our motoring services business, propelling us to market leadership in aftermarket service, maintenance and repair.

We understand the importance of the ordinary dividend to many of our investors. Recognising this, and the strength of the current balance sheet, we are proposing an FY21 final dividend of 5p per share and a reinstatement of the ordinary dividend from FY22 at 9p per share, intending this to be progressive. Should surplus cash remain in the business that we feel we cannot deploy with good rates of return, we will return this to shareholders in the most appropriate way.

Enquiries

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Results presentation
A conference call for analysts and investors will be held today, starting at 09:00am UK time. Attendance is by invitation only. A copy of the presentation and 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.

Next trading statement
On 8 September 2021 we will report our trading update for the 20 weeks ending 20 August 2021.

Notes to Editors

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

Halfords is the UK's leading provider of motoring and cycling services and products. Customers shop at 404 Halfords stores, 3 Performance Cycling stores (trading as Tredz and Giant), 374 garages (trading as Halfords Autocentres, McConechy's and Universal) and have access to 143 mobile service vans (trading as Halfords Mobile Expert and Tyres on the Drive) and 192 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.

Operational review

I am very pleased with our performance in FY21, shown not only in the financial results but also in the operational agility demonstrated throughout the business to overcome the many challenges presented last year. COVID-19 was clearly the most significant challenge faced by any retailer, but we have also faced Brexit, container shortages, port congestion and more recently, the blockage of the Suez Canal. Our performance not only showcases the resilience of our core business and the relevance of our strategy, but also the importance of our progress in creating a more efficient and profitable business to provide strong foundations for future growth.

Retail

Retail revenue of £1,039.8m was +9.4% above last year and +14.6% on a LFL basis. We saw a volatile and unpredictable year of trading, with large swings in LFL performances from week to week, and across our categories. Overall, we saw strong demand for our Cycling products, +54.1% above last year, with our performance cycling business Tredz performing even better at +66.3%. Motoring was -12.1% LFL, better than traffic levels but inevitably impacted by the lockdowns.

Retail Motoring
Retail motoring sales were down -12.1% LFL against the backdrop of -25% fewer car journeys and low consumer confidence. As an essential retailer we played our part in the COVID-19 response by carrying out over 60k Services for NHS and key workers during the height of the pandemic and over 1m essential services during full lockdowns. We also kept innovating our products and services, including the launch of our WeCheck app, which enables colleagues to digitally record vehicle checks undertaken and the recommended actions for a customer to keep their car safe. We performed well in product categories related to staycation or car maintenance – Touring was up +1.7%, whilst Car Cleaning (+7.4%), Body Repair (+5.4%) and Workshop (+6.4%) all grew strongly. We launched new products in Blades, Bulbs and Car Seats, enabling these categories to perform stronger than the lower traffic levels would suggest, and helping to mitigate the challenging conditions we faced in discretionary categories, such as Dash Cams and Audio.

Retail Cycling
Cycling performed very well, +54.1% above last year, but presented its own challenges in securing supply and predicting demand. All mainstream product categories saw strong growth, with Adult Mechanical bikes +113% and E-bikes +76%, while our Performance Cycling business Tredz also saw strong revenue and profit growth, capitalising on customer transfer from our closed Cycle Republic business. We identified very early in the pandemic the unprecedented levels of demand for cycling, enabling us to use our scale and relationships to secure stock from new and existing suppliers. We also launched a series of customer journey enhancements, beginning online, to optimise the customer experience at a time of high demand.

In this competitive market we continued to innovate and refresh our exclusive ranges of own brand Carrera, Boardman and Apollo bikes. Our bikes secured multiple awards from specialist press and magazines throughout the year for their design, specification, and value. Over 50% of our adult bikes were updated last year, adding new features such as comfort saddles and puncture resistant tyres, all following customer feedback. Supply was, and remains, a challenge, but where necessary, we quickly adapted specifications and componentry to mitigate bottlenecks in production and worked with new suppliers to achieve a steady intake of bikes throughout the year. Keeping customers updated and engaged was a key priority and we launched a series of digital developments designed to enhance and assist customers finding their new bike. One example was 'Email me when in stock' or the ability to register interest in new launches. We also introduced bookable collection slots, next day delivery and tripled our central bike build capacity, all of which have led to improved NPS scores and customer feedback.

With high demand and limited global supply, many customers opted to fix their existing bike and we ensured our colleagues and systems were ready to help. Cycling Services grew more than +50% on last year as we offered free 32-point bike checks and took a market-leading share of the government's 'Fix Your Bike' scheme. We repaired and serviced over 1m bikes and were the only national retailer offering online booking slots, an initiative launched this year.

Retail gross margin

Despite the extreme, adverse change in motoring mix, Retail gross margin increased by +10bps, highlighting the importance and timeliness of our work over the last 18 months to improve the profitability of our Cycling business. We targeted a +300bps improvement in Cycling gross margins and through our work to rationalise componentry, improve buying terms, and optimise promotional effectiveness, we actually delivered a significant +680bps increase. This improvement enabled us to offset the -12 percentage-point change in motoring revenues as a percentage of total sales, and the corresponding impact on gross margins.

Retail operating costs

Our focus on efficiency and procurement saw Retail operating costs increase +1.6% year-on-year. Excluding £24.8m of COVID-19 related costs and £33.1m of business rate relief, operating costs were 3.6% higher year-on-year but decreased as a proportion of sales by -2.2ppts.

Our achievements helped mitigate the adverse mix impact described above, whilst also allowing investments in key strategic initiatives such as centralising customer contact. Our Retail business experienced the greatest disruption from COVID-19, implementing seven different operating models in six months to safeguard our customers and colleagues. We also employed front-of-house roles to monitor store capacity and social distancing, alongside significant investment in PPE. Acknowledging the unwavering commitment of our colleagues in such difficult circumstances, we launched almost £4m of initiatives during the year, including the Frontline Colleague Support Scheme and Halfords Here to Help Fund, alongside free flu vaccinations and wellbeing support lines.

Over the year, we continued to work on lowering the underlying costs within our business. As communicated at the end of FY20, we consolidated our performance cycling business, closing all 22 Cycle Republic stores and saving over £9m of annualised costs, whilst transferring a significant share of the customer base to our remaining Tredz business. In addition, we concluded our review of low-returning stores and consequently closed an additional 42 retail stores, where we are confident that trade-transfer will improve overall returns, generating an annualised cost saving of £15m. We also saved over £7m of annualised goods not for resale ("GNFR") costs, continued to improve our sustainability credentials through the continued roll-out of LED lighting and Building Management Systems, and renewed 19 leases for an average -30% reduction in rent premiums.

Autocentres

Autocentres revenue was £252.5m, growing 31.6% year-on-year and +9.7% on a LFL basis. The overall growth in Autocentres benefited from the annualisation of our FY20 acquisitions and the continued expansion of our Halfords Mobile Expert business, launching new vans and hubs to serve this growing and in-demand service.

However, our Autocentres business was not immune to the impacts of COVID-19. The reduction in traffic and MOT deferments required us to work hard to overcome these challenges, but our LFL and overall growth clearly demonstrate the significant increase in market share we have secured. This has been achieved by attracting new customers through our first Group Motoring Services marketing campaign, the ease for customers in booking appointments on our single Group website, and having their chosen service fulfilled through one of our fixed locations or by mobile experts at the customer's home or office. We further enhanced convenience for our customers by opening on Sundays in 131 garages, increasing our fleet of Halfords Mobile Expert vans to 143 and adding 20 garages to our business through our acquisition of Universal Tyres. We are confident that many of our customers will continue to use our services as their preferred choice, having grown the NPS score to 68.8 across the year and exiting FY21 at 72.6.

Autocentres EBIT was £12.7m on a reported basis, pre-IFRS 16, and £12.0m excluding COVID-19 related costs of £5.3m and business rates relief of £6.0m. EBIT growth was £5.3m versus FY20. This exceptional performance reflects ongoing improvements to the customer experience and increased operational efficiency, driven by continued enhancements to our digital operating model ('PACE'), and resulting in strong market share gains.

Areas of strategic focus

It has been a particularly strong year for our areas of strategic focus, demonstrating the resilience and relevance of our strategy in the face of a tough operating environment. We have seen market share increases and sales growth as our investments gain traction.

Group Services[1]
It was a very good year for Group Services, with revenues exceeding £370m, a growth of +23% on last year and now accounting for 29% of Group revenue. This was an excellent result under any circumstance but given the backdrop of -25% fewer journeys on UK roads, it is testament to our focus on this market. We launched several initiatives to boost customer awareness, including our 'Road Ready' campaign, our Group Services marketing campaign and our free 32-point bike check. We made booking our services easier than ever by enabling customers to book on our single Group website and we are the first national service provider to allow customers to book timed cycle service appointments or collections online. With heightened demand, we continued to increase our scale and capacity, making it easier and more convenient for customers to receive their services at one of almost 800 fixed locations, or at home or work from one of our 143 mobile expert vans.

Online
It was also a strong year for Group Online sales, which were £580m, growing +110% and accounting for 44% of Group revenue. Lockdowns and social distancing meant that customer demand for online and delivery channels grew dramatically. The successful launch of our new web platform in Q4 FY20 meant we were able to cope with a rapid +61% increase in traffic and provide a flexible platform from which we could continually develop the site and adapt to fast-changing customer needs. Not only did we change the focus and main content several times across the year, but we were able to add over 160 new customer-enhancing developments, such as guided selling, local stock availability, new services, new locations, bundles, recommendations, and personalisation across the Group. The result was a 10x increase in customers viewing Autocentre content and a conversion increase in Retail of +37%.

B2B[2]
Finally, B2B also delivered an excellent sales performance, growing +40% and accounting for 17.9% of Group revenue. We saw strong revenue growth in several areas of B2B. Our market-leading Cycle to Work ("C2W") scheme delivered +85% revenue growth, driven by a large increase in new clients to our scheme and increased uptake within our existing client base, with many increasing their employee spend limit above £1,000 for the first time. Our partnerships and gift card business also grew by over 20%, through increased reach, systems improvements allowing multi-channel redemption, and an expansion of our bulk product offering into fully-serviced bike fleets. The insurance replacement business recorded an 8% improvement year on year, supported by a growth in demand for bikes and

our diversification into replacement children's car seats. Our fleet & commercial motoring servicing business grew by 72%, boosted by the acquisition of McConechy's, and although Tradecard declined -6%, this performance exceeded the consumer-facing growth rate of the most relevant product categories. Finally, we launched a new salary sacrifice offer, allowing employees to spread the cost of car maintenance, and improved our C2W offer within the Republic of Ireland.

Sustainability – Environmental, Social and Governance ("ESG")

In our FY20 Annual Report, we set out our ESG strategy and demonstrated its alignment to the Group's purpose: 'To Inspire and Support a Lifetime of motoring and cycling'. We have since updated our strategy, including a clear prioritisation on the topics most important to us and our broad stakeholder base, and created a roadmap for building the capabilities and governance processes to drive further progress against the strategy. Our four priority areas are shown below, further details of which will be available in our FY21 annual report to be published in July 2021.

- Electrification
- Net Zero
- Diversity & Inclusion
- Product, Packaging and Waste management

Progress on strategy in FY21

'To Inspire and Support a Lifetime of motoring and cycling.'

At our preliminary results in July 2020, reflecting the unprecedented impact and extreme uncertainty of the COVID-19 pandemic, we highlighted that we would moderate our near-term plan. We adjusted our short-term focus to cost efficiency and cash preservation, ensuring our colleagues are safeguarded and engaged in the success of the business and, of particular importance, adapting quickly to new customer trends. Our aim was to strengthen the core of our business during FY21 in the hope that we could return to more transformative investment in FY22 as the pandemic situation stabilised. Our progress on the key building blocks was as follows:

Continue to transform and build a unique and market-leading **Motoring Services** offer

- Increased the scale of our Halfords Mobile Expert offer to 143 vans, 14 hubs and over 250 technicians to serve a wider geographic reach.
- Acquired Universal Tyres, adding 20 garages to our fixed estate, as well as 89 vans, enabling us to expand our coverage of the commercial market in FY22.
- Continued to invest in our technology:
    - PACE into McConechy's
    - Tyres on The Drive (ToTD) integrated into our Group website
    - WeCheck app launched in Retail stores
- Launched our first Group motoring services campaign, contributing to increased awareness and a +28% uplift in consideration scores for our Services offer.
- Implemented a new labour operating model in our Retail stores, designed to significantly increase our scale and capability in motoring and cycling services. We completed consultations with over 5,500 colleagues, with 88% ultimately retained in the business.

Enhancing our Group web platform and **digital customer experience**, to create an even more differentiated and specialist proposition

- Launched over 160 new customer enhancements to our group website, including 'email me when in stock', guided selling, local store stock availability, and personalisation.
- Transferred inbound phone and digital customer-contact from all 404 retail stores to a centralised, specialist team. With the pandemic driving contact volumes to at least four times higher than normal, caused by accelerated online adoption and a buoyant cycling market, this initiative enabled a significant improvement in call answer rates, to over 95%, improved service speed and query resolution, and the liberation of store-based colleagues to focus on those customers in front of them.
- With an ongoing focus on improving the customer experience, Retail NPS improved by +1.8 YoY and Autocentres NPS by +3.8 YoY, a proud achievement in such a challenging year.

<u>A focus on **cost and efficiency**, creating a leaner and more profitable business</u>

- Cycling profitability improvements of +680bps, far exceeding the targeted +300bps.
- Sustainable working capital improvement of £20m
- In line with our plans announced in November 2019, we closed 80 low-returning stores and garages where we were confident of trade transfer to neighbouring locations. This includes the exit of 22 Cycle Republic stores, announced in FY20.
- Negotiated 19 lease renewals in Retail, achieving an average rent reduction of -30%.
- Secured GNFR annualised cost savings of £7m.

<u>**Invest in our Colleagues'** welfare, engagement and development</u>

- Colleague safety and wellbeing was our number one priority throughout FY21:
    - We invested £11m in PPE and COVID-19 protocols across the Group.
    - We invested a further £4m in direct financial support, including a Frontline Colleague Support Scheme and the Halfords Here to Help fund.
    - We launched a Wellbeing hub to support colleagues on a range of issues affecting their mental and physical health.
- We commenced our Services skills intervention, significantly increasing our colleagues' ability to provide a broad range of motoring and cycling services to customers and providing them with development opportunities to help further their careers.

FY22 strategy focus

The last 12 months have proven the resilience of our business and the ongoing relevance of our strategy to focus on the growth of motoring services and B2B. Although we expect the volatile and uncertain trading patterns to continue, the period of optimisation we have undertaken has strengthened the core business and it is now well-placed to withstand future challenges. Although we will continue to optimise the business, we will now accelerate the process of transformation that was paused during the pandemic.

By the end of FY22 we expect to see a different business beginning to emerge, with our areas of focus next year as follows:

Inspire

- Project Fusion remains an exciting opportunity and we will trial between two and three towns in FY22. We think of Fusion as *'a customer experience seamlessly, consistently, & conveniently executed across all of our assets in a town'*. It will encompass a destination retail store, an updated Autocentre garage, and a Halfords Mobile Expert offer, all operating together in conjunction with centralised customer support channels and an online and home delivery proposition across a major town or city. Focussed primarily on improving the customer experience and understanding the potential of combining all Halfords services in the most compelling way, the trial will also test whether a reinvigorated in-store & garage design, focused more heavily on the delivery of services, can further stimulate sales across the Group.

- We will continue to invest heavily in our digital proposition, whether online through the Group web platform, or enabling the wider transformation agenda.

- Through Project 'Peloton 2', we will significantly improve our PACs ("parts, accessories and clothing") offering in Cycling, through better ranging, improved merchandising, and most importantly enabling our colleagues to provide customers with complete solutions to their needs.

Support

- We will increase our Halfords Mobile Expert van network to at least 200, bringing this popular service to more parts of the UK and giving us over 80% national coverage.

- We will increase the number of Autocentres garages, bringing us closer to our medium-term goal of 550 in the UK and ROI.

- We will continue to expand our B2B channel, in particular building on the commercial business we established through our acquisitions of McConechy's and Universal Tyres.

- We will lead the transition to an electric future by investing in training, technology and introducing new products and services, positioning Halfords as the leading voice of E-mobility. This will include a commitment to train over 2,000 Retail and Autocentres colleagues in Electric servicing in FY22.

Lifetime

- We will launch a unique and market-leading motoring services club, rewarding loyal customers with preferential terms and offers.

- The additional value of customers that shop across our Group remains an exciting and valuable opportunity. Although the pandemic caused normal shopping behaviours to be interrupted, we will continue to focus on this and our digital customer experience.

- Our focus on ESG matters will accelerate, centred on four priority areas in which Halfords can make a real difference: Electrification, our Net Zero commitment, Diversity & Inclusion, and Product, Packaging and Waste management.

Underpinned by:

- Cost and efficiency will remain a focus and although we do not foresee any further large-scale property closures in the near-term, we will retain flexibility in our estate and seek to negotiate further rental savings.

- Our frontline colleagues will benefit from the biggest investment in skills to-date, further enhancing our super-specialist expertise. By the close of H2 we will have completed our skills intervention, resulting in our skills base increasing from 16,000 to over 40,000, with every colleague trained in all core services.

- We will transition to a new Group operating and reward model, better aligned to our Group strategy and our One Halfords Family values.

In addition to these strategic priorities, we will continue to optimise the business to further strengthen our foundations. As mentioned in our Outlook statement above, one key initiative in FY22 will be an investment in core pricing in our motoring products business. The dramatic acceleration in online shopping and a more challenging economic picture have brought value into sharp focus and so we believe this is the right time to make this investment, providing customers with greater value and providing a strong foundation for our services business.

Graham Stapleton
Chief Executive Officer, June 2021
Halfords Group Plc

1. Group Services includes revenues across both Retail and Autocentres and includes associated products
2. B2B includes revenues from C2W, Commercial, Fleet and product sales to businesses in both Retail and Autocentres

Chief Financial Officer's Report

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

Reportable Segments

Halfords Group operates through two reportable business segments:
- Retail, operating in both the UK and Republic of Ireland; and
- Autocentres, operating solely in the UK.

All references to Retail represent the consolidation of the Halfords ("Halfords Retail") and Cycle Republic businesses, Boardman Bikes Limited and Boardman International Limited (together, "Boardman Bikes"), and Performance Cycling Limited (together, "Tredz and Wheelies") trading entities. All references to Group represent the consolidation of the Retail and Autocentres segments.

The "FY21" accounting period represents trading for the 52 weeks to 2 April 2021 ("the financial year"). The prior period "FY20" represents trading for the 53 weeks to 3 April 2020 ("the prior year"). To ensure a meaningful comparison with the prior year, all commentary, unless otherwise stated, is against the 52-week period ended 27 March 2020 and is before non-underlying items. Most of our commentary on profit and cost measures is before the impact of IFRS 16, which is stated where relevant. The impact of IFRS 16 is shown in the table below and further details of this impact are provided later within this report.

Group Financial Results

	FY21 (52 weeks) £m	FY20 (53 weeks) £m	FY20 (52 weeks) £m	52-week change
Group Revenue	1,292.3	1,155.1	1,142.4	+13.1%
Group Gross Profit	656.3	589.7	584.0	+12.4%
Underlying EBIT pre-IFRS 16*	101.8	55.4	58.7	+73.4%
Underlying EBITDA pre-IFRS 16*	139.8	92.6	95.3	+46.7%
Net Finance Costs	(5.5)	(2.8)	(2.8)	+96.4%
Underlying Profit Before Tax pre-IFRS 16*	**96.3**	**52.6**	**55.9**	**+72.3%**
Net Non-Underlying Items	(37.3)	(32.1)	(32.1)	+16.2%
Impact of IFRS 16	5.5	(1.1)	(1.1)	–
Profit Before Tax	64.5	19.4	22.7	+184.1%
Underlying Basic Earnings per Share pre-IFRS 16*	40.7p	22.9p	24.3p	+67.5%

** This report includes Alternative Performance Measures (APMs) which we believe provide readers with important additional information on the Group. A glossary of terms and reconciliation to IFRS amounts is shown on page 21.*

The speed with which COVID-19 hit, and the subsequent implications, has challenged every business. Almost overnight, demand and customer shopping behaviour changed, cashflows and supply chains were interrupted, and the resulting operational challenges tested everyone and everything. Although I believe the financial strength of Halfords, and our diverse portfolio of essential products and services, positioned us well going into the pandemic, I am pleased that the work in the preceding 12 months was designed for exactly this purpose; to strengthen the resilience and performance of the business in an ever-changing retail environment. The FY21 financial results, therefore, reflect our operational agility in year but also the positive impact of longer-term initiatives to improve the efficiency and profitability of our business. We saw revenues and profits grow, gross margins improve in our core categories and businesses, operational costs fall as a proportion of sales, and a closing net cash position of £58.1m.

The customary financial metrics undoubtably demonstrate our strong performance but, over and above this, we also undertook further activity in year to safeguard the Group. This included securing £25m of CLBILS funding and covenant waivers on our existing RCF at the peak of the pandemic and, more notably, the subsequent refinancing of the Group's debt facility for the next 3 years, securing a competitive rate of borrowing on a reduced facility size overall.

Group revenue in FY21, at £1,292.3m, was up 13.1%, comprised of Retail revenues of £1,039.8m and Autocentres revenue of £252.5m. This compared to FY20 Group revenue of £1,142.4m, which saw Retail revenue of £950.6m and Autocentres revenue of £191.8m. Group gross profit at £656.3m (FY20: £584.0m) represented 50.8% of Group revenue (FY20: 51.1%), comprising of a Retail gross margin up +10bps year on year at 48.3% and a decrease in the Autocentres gross margin of 440 bps to 61.1%, reflecting the recent acquisition of lower gross margin businesses. Although the headline Group gross margin rate declined -34bps, this was a strong result given the dynamics and volatility of the last twelve months and the outcome reflects our focus on creating a more profitable business. To context this result, it is worth highlighting three key components within the final overall Group gross margin %. Within Retail, we saw a significant and adverse change in mix, out of higher margin motoring products and into lower margin cycling. Motoring revenues were impacted by the almost continuous rhythm of lockdowns and resultant fewer journeys. On the contrary, our cycling performance was very strong as we worked hard to capitalise on any opportunity within this market and offset the lost motoring revenue. Offsetting the significant mix impact, we saw a particularly strong margin rate improvement, reflecting almost 18 months of work to improve the profitability of our cycling business. The overall improvement in cycling gross margin was particularly pleasing, up almost 680bps on FY20 and, alongside a smaller, but favourable, improvement in motoring this completely mitigated the adverse mix effect within Retail.

The final margin impact was seen within our Autocentre Business. The overall performance was -440bps vs FY20 but was expected as we reported the first full year of Tyres on the Drive and McConechy's Tyre Service Limited ("McConechy's"). As we highlighted last year, these businesses generate a lower gross margin due to a higher participation of tyre sales. The operating model is different, but we see an opportunity in the medium term as we increase the participation of higher-margin services, maintenance, and repair within the product mix. Encouragingly, all three Autocentre businesses saw their gross margins improve vs FY20 as we continue to optimise and take the first steps on this journey.

Total underlying costs, pre-IFRS 16, increased to £554.5m (FY20: £525.3m) of which Retail comprised £410.6m (FY20: £404.3m), Autocentres £141.6m (FY20: £118.9m) and unallocated costs £2.3m (FY20: £2.1m). Unallocated costs represent amortisation charges in respect of intangible assets acquired through business combinations, namely the acquisition of Autocentres in February 2010, Boardman Bikes in June 2014, Tredz and Wheelies in May 2016, McConechy's in November 2020 and The Universal Tyre Company (Deptford) Limited ("Universal") in March 2021, which arise on consolidation of the Group. Group Underlying EBITDA pre-IFRS 16 increased 46.7% to £139.8m (FY20: £95.3m), whilst net finance costs pre-IFRS 16 were £5.5m (FY20: £2.8m).

Group operating costs before non-underlying items and pre-IFRS 16 saw an increase of 5.6% but decreased as a proportion of sales by -3.1ppts to 42.9%, demonstrating our increased efficiency. As with revenue and gross margin, there are several movements within this result that give context to the performance. The Group saw over £33m of costs as a result of operating under COVID-19 restrictions, driven by additional payroll to manage colleague and customer safety, personal protective equipment ('PPE') and safety equipment, and higher fulfilment cost as customers temporarily changed shopping behaviour. During Q1, whilst the Groups stores and centres were partially closed, over 50% of colleagues were furloughed. At this point we utilised government furlough schemes, receiving £10.5m of support, which was later paid back in full during Q4. We also recognised the difficult environment through which our colleagues have worked and, as a result, invested in supporting them financially through a series of initiatives, including the Front-Line Bonus Scheme and a Hardship Fund, totalling £4m, whilst also adjusting holiday rules to allow colleagues to take more time off during FY22. These costs were offset by the business rates relief of £39m across the Group, of which the majority arose within the Retail business.

We continued to drive our ongoing efficiency programmes, delivering £7m of GNFR (goods not for resale) cost savings, alongside those associated with the closure of Cycle Republic, worth a further £9m. We also achieved rental savings within our Retail estate on 19 lease renewals of circa -30% worth £0.6m in FY21 and continued to convert more of our stores and garages to LED lighting, saving a further £0.4m. These underlying savings were offset by the inevitable cost increases associated with the growth of our business. The annualisation of our acquisitions, Tyres on the Drive and McConechy's, added £18m, strategic investments totalled £8m and the significantly skewed mix into bikes, and their increased volumes sold during FY21 added a further £22m of additional cost.

Underlying Profit Before Tax pre-IFRS 16 for the year increased 72.3% at £96.3m (FY20: £55.9m). Non-underlying items of £37.3m in the year (FY20: £32.1m) related predominantly to the closure of a number of stores and garages following a strategic review, as well as costs relating to organisational restructuring. After non-underlying items, Group Profit Before Tax was £59.0m (FY20: £23.8m).

After non-underlying items and including IFRS 16, Group Profit Before Tax was £64.5m (FY20: £22.7m). The impact on the Group of IFRS 16 in the period was a £5.5m net increase to Group Profit Before Tax. Further details on the impact of IFRS 16 is shown later in this report.

Retail

	FY21 (52 weeks) £m	FY20 (53 weeks) £m	FY20 (52 weeks) £m	52-week change
Revenue	1,039.8	961.0	950.6	+9.4%
Gross Profit	502.0	462.8	458.4	+9.5%
Gross Margin	48.3%	48.2%	48.2%	+10bps
Operating Costs	(410.6)	(410.8)	(404.3)	+1.6%
Underlying EBIT pre-IFRS 16*	**91.4**	**52.0**	**54.1**	**+68.9%**
Non-underlying items	(33.6)	(29.5)	(29.5)	+13.9%
Impact of IFRS 16	14.2	(1.2)	(1.2)	–
EBIT post-IFRS 16	**72.0**	**21.3**	**23.4**	**+207.7%**
Underlying EBITDA pre-IFRS 16*	**120.5**	**81.1**	**82.7**	**+45.7%**

* *This report includes Alternative Performance Measures (APMs) which we believe provide readers with important additional information on the Group. A glossary of terms and reconciliation to IFRS amounts is shown on page 21.*

Revenue for the Retail business of £1,039.8m reflected, on a constant-currency basis, a like-for-like ("LFL") sales increase of +14.6%. Total revenue in the year increased 9.4% after adjusting for the impact of closed stores. The volatility of the trading environment discussed earlier was most evident in our Retail business, which made forecasting particularly difficult. Demand for our motoring products suffered from a supressed market throughout FY21 as lockdowns markedly reduced the number of journeys, with customers opting to work from the safety of their homes. Motoring like-for-like declined 12.1%, better than transport data would suggest, but still saw weekly LFLs ranging from -75% to +20%. There were a number of positive performances within motoring, such as our touring products and car cleaning, but many product areas saw LFL declines through much of the year.

Our cycling performance was much stronger, with like-for-like growth of 54.1%, as we worked hard to source stock from new and existing suppliers and serve the increased demand within the market. Cycling was equally hard to predict, and although performed very well across H1, with LFL peaks of over +100%, H2 saw more volatility from week to week with LFL declines late in Q3 and early Q4.

The differing category fortunes resulted in the mix of motoring within Retail decline by almost -12ppts vs. Cycling against last year. The Retail Operational Review in the Chief Executive's Statement contains further commentary on the trading performance in the year. Like-for-like revenues and total sales revenue mix for the Retail business are split by category:

	FY21 LFL (%)	**FY21 Total sales mix (%)**	FY20 Total sales mix (%)
Motoring	-12.1	46.1	58.4
Cycling	+54.1	53.9	41.6
Total	**+14.6**	**100.0**	**100.0**

Gross profit for the Retail business, at £502.0m (FY20: £458.4m) represented 48.3% of sales, an increase of +10bps on the prior year (FY20: 48.2%). Underlying gross margins of cycling and motoring improved more significantly than the headline number, which was diluted by product mix into lower margin cycling and a currency impact within the broader gross margin due to fluctuations in the year end spot rate. The gross margin improvement within the categories reflected the significant work carried out over the last 18 months on our sourcing strategy for both bikes and motoring products, as well as our work to optimise promotional activity throughout the year. Over the year, Cycling gross margins improved by +680bps and Motoring by +40bps vs FY20.

Retail operating costs before non-underlying items and IFRS 16 were £410.6m (FY20: £404.3m) an increase of 1.6% on FY20. The focus on operational efficiency and procurement continued in FY21, offsetting the impact of volume and mix, whilst simultaneously allowing the business to invest, albeit at a reduced level, in our strategic initiatives. Some of the highlights included centralising all customer contact and further development of our digital platform to enhance our customer experience including bookable bike slots and our *We*Check App. We saw almost £7m of GNFR costs removed from the Retail business through continued review of services and tendering processes. We saw 19 lease renewals, saving on average -30% on annual rents, and we continued to convert more stores to LED lighting and building management systems, saving over 40% on annual converted stores utilities consumption.

Naturally, due to the size of the Retail business, a greater proportion of the costs associated with COVID-19 were within its costs. Of the £33m mentioned above, £25m arose in Retail, offset by £33m of business rates relief.

Autocentres

	FY21 (52 weeks) £m	FY20 (53 weeks) £m	FY20 (52 weeks) £m	52-week change
Revenue	252.5	194.1	191.8	+31.6%
Gross Profit	154.3	126.9	125.6	+22.9%
Gross Margin	61.1%	65.4%	65.5%	-440bps
Operating Costs	(141.6)	(121.4)	(118.9)	+19.1%
Underlying EBIT pre-IFRS 16*	**12.7**	**5.5**	**6.7**	**+89.6%**
Non-underlying items	(3.7)	(2.6)	(2.6)	+42.3%
Impact of IFRS 16	0.8	0.1	0.1	–
EBIT post-IFRS 16	**9.8**	**3.0**	**4.2**	**+133.3%**
Underlying EBITDA pre-IFRS 16*	**19.3**	**11.5**	**12.6**	**+53.2%**

* *This report includes Alternative Performance Measures (APMs) which we believe provide readers with important additional information on the Group. A glossary of terms and reconciliation to IFRS amounts is shown on page 21.*

Autocentres generated total revenues of £252.5m (FY20: £191.8m), an increase of 31.6% on the prior year with a LFL increase of 9.8%. Non-LFL revenue in the year included benefits from the acquisitions of both Tyres on the Drive and McConechy's in November 2020, alongside existing Autocentres that had been open less than 12 months.

Gross profit, at £154.3m (FY20: £125.6m), represented a gross margin of 61.1%; a decrease of 440 bps on the prior year. As stated earlier, the decrease in gross margin % was solely a result of annualisation of the FY20 acquisitions, which have a dilutive effect as the operating model is quite different. These businesses tend to be lower gross margin but also lower cost. There is an opportunity for us to grow margin, over time, through a greater mix into service and repair, but the gross margin will remain lower than that of a core garage.

All businesses saw their respective gross margins improve during FY21, with the continued development of our PACE Digital Operating Platform supporting buying efficiency across garages, boosted further by a slightly lower mix into tyres, which tend to be lower margin.

Operating costs were £141.6m, +£22.7m above last year, of which £18m was a result of the annualisation and growth of our acquisitions from FY20. COVID-19 costs within Autocentres totalled £5.3m, offset by £6.0m of relief through the Retail, Hospitality and Leisure Grant Fund. The remaining cost increase was the result of growth in the underlying business.

Autocentres' Underlying EBIT was £12.7m before IFRS 16 (FY20: £6.7m) a strong performance, reflecting the continued growth and optimisation of our LFL business, alongside the annualisation and expansion of FY20 acquisitions. Underlying EBITDA before IFRS 16 of £19.3m (FY20: £12.6m) was 53.2% higher than FY20.

Portfolio Management

The last 12-18 months have seen some of the most significant changes in the Group's portfolio since the acquisition of Autocentres over a decade ago. Within Q3 FY20 we saw the acquisition of McConechy's Garages and Tyres on the Drive, followed shortly by the closure of our Cycle Republic business, including 22 stores, at the close FY20. Within FY21 we have continued to grow our services business, increasing the number of HME vans and acquiring Universal at the end if the financial year. We also, however, took steps to further improve the profitability and efficiency of our business through the closure of 59 lower return stores and garages.

The total number of fixed stores or centres within the Group stood at 781, with a further 143 HME vans and a further 192 commercial vans supporting mobile tyre fitting within McConechy's and Universal as at 2 April 2021. The portfolio comprised 404 stores (end of FY20: 472) and 374 Autocentres (end of FY20: 371). Mobile locations grew by 156 vans, increasing coverage of the most in-demand regions within the UK.

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

	Retail	Centres	Vans
Relocations	-	-	–
Leases renegotiated	19	7	–
Refreshed	-	-	–
Openings/Acquisitions	-	20	159

Closed	42	17	–

Within Retail, 42 low return stores closed during the year, largely in the final quarter. It was considered more profitable to the Group, on analysing the anticipated sales transfer to other channels and neighbouring stores, to close these stores and reduce the overall cost base. Where there was term remaining on any leases at the point of closure, provision has been made in the balance sheet to cover occupancy costs to the point of lease expiry. A further 22 Cycle Republic stores, along with the Boardman Performance Centre, are also no longer part of the trading portfolio.

The number of lease expiries, or breaks under option, increases significantly within the next five years. Retail will see almost half of stores experience optionality within five years, allowing for a high degree of flexibility within the estate.

Within Autocentres, no centres were opened, but 20 locations acquired in the year. 17 were closed, taking the total number of Autocentre locations to 374 as at 2 April 2021 (end of FY20: 371). No Autocentres were refreshed in the year (FY20: 14).

With the exception of eight long leasehold, and two freehold properties within Autocentres, the Group's operating sites are occupied under operating leases, the majority of which are on standard lease terms, typically with a five to 15-year term at inception and with an average lease length of under six years. The acquisition of Universal resulted in the purchase of 6 freehold properties but all have been sold and leased back within the first two periods of FY22.

Net Non-Underlying items

The following table outlines the components of the non-underlying items recognised in the 52 weeks ended 2 April 2021:

	FY21 £m	FY20 £m
Organisational restructure costs (a)	5.9	2.8
Group-wide strategic review (b)	-	1.0
Acquisition and investment-related fees (c)	0.6	1.9
One-off claims (d)	2.9	0.8
Closure costs (e)	27.9	25.6
Net non-underlying items pre-IFRS 16	**37.3**	**32.1**
Closure costs (e)	(1.9)	1.2
Impairment of right-of-use assets (f)	(0.4)	0.9
Net non-underlying items post-IFRS 16	**35.0**	**34.2**

a. In the current and prior period, separate and unrelated organisational restructuring activities were undertaken. Current period costs comprised:

- During the year a strategic redesign of the in-store operating model undertaken to better meet our customers' expectations and deliver a consistent shopping experience across our estate. Redundancy costs of £5.9m were incurred to transition to the new operating model. These costs have materially been spent during the year.

Prior period costs comprised:

- Redundancy and transition costs relating to roles which have been outsourced or otherwise will not be replaced (FY20: £1.4m); and
- Asset write-offs, principally resulting from the strategic decision to re-platform the Retail and Autocentres websites (FY20: £1.4m)

b. In the prior period, costs were incurred in preparing and implementing the new Group strategy. This included £0.4m of external consultant cost and £0.6m of store labour costs, point-of-sale equipment and other associated costs in completing the cycling space re-lay across the store estate.

c. In the current and prior periods, costs were incurred in relation to the investments in Universal, McConechy's and Tyres on the Drive.

- In FY21, £0.6m relating to professional fees in respect of the acquisition of Universal;
- Tyres on the Drive acquisition costs comprised £1.0m (FY20) principally relating to the costs of dual running Halfords Mobile Expert and Tyres on the Drive, as well as the write-off of the receivables balance due from Tyres on the Drive related to Halfords Mobile Expert prior to acquisition; and
- £0.9m (FY20) relating to professional fees in respect of the acquisition of McConechy's.

d. During the prior year, the Group incurred £0.2m in settling as court case. In addition, a provision of £0.6m was recognised in relation to the HMRC audit relating to the national minimum wage. The Group has continued to work with HMRC and external advisors during FY21 and a full data validation exercise is underway to determine the required Notice of Underpayment. The exercise is in progress and based on information available to date and the Group's assessment of a range of potential outcomes, management has increased the provision to £3.4m which represents management's best estimate of the value of underpayments and the associated penalty charge.

e. Of the closure costs £28.5m represents costs associated with the closure of a number of stores and garages following a strategic review of the profitability of the physical estate. The costs mostly relate to the impairment of right-of-use assets (£12.2m) and tangible assets and property costs as well as ongoing onerous commitments under the lease agreements and other costs associated with the property exits.

   In the prior period they related to costs associated with the closure of the operations of Cycle Republic and the Boardman Performance Centre ("Cycle Republic") following a strategic review of the Group's cycling businesses. The costs mostly relate to the impairment of right-of-use assets, as well as the impairment of intangible and tangible assets and inventories as well as ongoing onerous commitments under the lease agreements and other costs associated with the property exits. £2.5m of these costs have been reversed during the year as the Group continues to negotiate lease disposals and was able to release stock provisions previously in place (£1.8m).

f. In light of the ongoing COVID-19 pandemic, the Group has revised future cash flow projections for stores and garages. As a result, in the prior period, £0.9m incremental impairment was recognised in relation to garages where the current and anticipated future performance did not support the carrying value of the right-of-use asset and associated tangible assets. This charge is directly attributable to impairment due to COVID-19 and relates primarily to the right-of-use asset value. During the year, £0.4m of this impairment has been reversed as the stores and garages have returned to a profitable position.

Finance Expense

The net finance expense (before non-underlying items and IFRS 16) for the 52 weeks ended 2 April 2021 was £5.5m (FY20: £2.8m) reflecting the drawdown of the Rolling Credit Facility (RCF) early in the pandemic, alongside increased amortisation and commitment fees relating to the new RCF, which was re-negotiated in the period.

Taxation

The taxation charge on profit for the 52 weeks ended 2 April 2021 (before IFRS 16) was £10.3m (FY20: £2.8m), including a £5.8m credit (FY20: £4.7m credit) in respect of non-underlying items. The effective tax rate of 17.5% (FY20: 13.9%) differs from the UK corporation tax rate (19%) principally due to the impact of deferred tax on accounting for share options and adjustments in respect of provisions held in respect of prior periods.

Earnings Per Share ("EPS")

Underlying Basic EPS before IFRS 16 was 40.7 pence and after non-underlying items 24.7 pence (FY20: 22.9 pence and 8.9 pence after non-underlying items), a 77.7% and 177.5% increase on the prior year. Basic weighted-average shares in issue during the year were 197.1m (FY20: 197.0m).

Dividend ("DPS")

In light of the COVID-19 pandemic and the impact on short-term profitability, the Board has taken a series of measures to preserve cash, one of which was a suspension of the dividend. After the strong close in the final quarter of FY21, the Board has recommended to shareholders that final dividend of 5.0p per share should be paid (FY20: Nil per share).

IFRS 16

	FY21 (52 weeks) Pre-IFRS 16 £m	**FY21 (52 weeks) Post-IFRS 16 £m**	**Movement £m**
Underlying EBIT	101.8	114.5	12.7
Net Finance Costs	(5.5)	(15.0)	(9.5)
Underlying Profit Before Tax	**96.3**	**99.5**	**3.2**
Net Non-Underlying Items	(37.3)	(35.0)	2.3

Profit Before Tax	59.0	64.5	5.5
Underlying Basic Earnings per Share	40.7p	41.7p	

IFRS 16 has had the effect of increasing profit by £5.5m. The two main drivers for this being the increase in held over leases which have decreased the depreciation charge in comparison to the rental payments, and the increased aging of the lease portfolio which has led to a lower interest charge in comparison to the rental payments.

Capital Expenditure

Capital investment in the 52 weeks ended 2 April 2021 totalled £32.5m (FY20: £35.8m) comprising £23.2m in Retail and £9.3m in Autocentres. Within Retail, £6.0m (FY20: £15.9m) was invested in stores. Additional investments in Retail infrastructure included a £13.1m investment in IT systems, including the continued development of the new Group website.

The £9.3m (FY20: £4.8m) capital expenditure in Autocentres principally related to the replacement of garage equipment and replacement of fixtures and fittings, rebranding of McConechy's garages and further development of PACE, our Garage Workflow System.

Inventories

Group inventory held as at the year-end was £143.9m (FY20: £173.0m). Retail inventory decreased to £134.3m (FY20: £168.0m), reflecting reduced stock levels and working capital efficiencies. The stock levels within our cycling business were, however, sub-optimal for much of the year and as such the inventory reduction is flattered. Inventory levels are likely to revert to more normal levels in FY22.

Autocentres' inventory was £9.6m (FY20: £5.0m). The existing Autocentres business model is such that only modest levels of inventory are held, with most parts acquired on an as-needed basis. The increase in inventory related to the acquisition of tyre stock within Universal.

Cashflow and Borrowings

Adjusted Operating Cash Flow was £186.6m (FY20: £109.9m). After acquisitions, taxation, capital expenditure and net finance costs, Free Cash Flow of £145.3m (FY20: £54.6m) was generated in the year. Group Net Cash/(Debt) was £58.1m (FY20: (£73.2m)). All of these numbers are pre-IFRS 16.

Within the cash flow is a working capital inflow of approximately £42m. Within this was approximately £20m of planned and sustainable inventory reductions in Retail and £36m which we anticipate will reverse in FY22. The £36m is a result of Retail inventories at year end which were £14m lower than optimal due to the high cycling demand, and year end creditors worth £22m which saw our normal timing differences alongside a VAT creditor that was deferred from earlier in the year and paid early in FY22.

Group net debt after IFRS 16 was £277.3m (FY20: £479.8m)

Principal Risks and Uncertainties

The Board considers the assessment of risk assessment and the identification of mitigating actions and internal control to be fundamental to achieving Halfords' strategic corporate objectives. In the Annual Report and Accounts, the Board sets out what it considers to be the principal commercial and financial risks to achieving the Group's objectives. The main areas of potential risk and uncertainty in the balance of the financial year are described in the Strategic Report of the 2021 Annual Report and Accounts. These include:

- Business Strategy
  –Capability and capacity to effect change
  –Stakeholder support
  – Value proposition
  –Brand appeal and market share

- Financial
  –Short, sharp interruptions in cashflows
  – Sustainable business model

- Compliance

–Regulatory and compliance
–Service quality
–Cyber security

- Operational
  – Colleague engagement / culture
  – Skills shortage
  – IT infrastructure failure
  – Critical physical infrastructure failure (including supply chain disruption)

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

Loraine Woodhouse
Chief Financial Officer
16 June 2021

Glossary of Alternative Performance Measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"), previously termed as 'Non-GAAP measures'. APMs should be considered in addition to IFRS measurements, of which some are shown on page 22. The Directors believe that these APMs assist in providing useful information on the underlying performance of the Group, enhance the comparability of information between reporting periods, and are used internally by the Directors to measure the Group's performance.

The key APMs that the Group focuses on are as follows. All numbers are shown pre-IFRS 16 (on an IAS 17 basis) to enable comparability with the prior period performance:

1. Like-for-like ("LFL") sales represent revenues from stores, centres and websites that have been trading for at least a year (but excluding prior year sales of stores and centres closed during the year) at constant foreign exchange rates.
2. Underlying EBIT is results from operating activities before non-underlying items. Underlying EBITDA further removes Depreciation and Amortisation.
3. Underlying Profit Before Tax is Profit before income tax and non-underlying items as shown in the Group Income Statement.
4. Underlying Earnings Per Share is Profit after income tax before non-underlying items as shown in the Group Income Statement, divided by the number of shares in issue.
5. Net Debt is current and non-current borrowings less cash and cash equivalents, both in-hand and at bank, as shown in the Consolidated Statement of Financial Position.

	FY21 Pre-IFRS 16 £m	**FY21 Post-IFRS 16 £m**	FY20 Pre-IFRS 16 £m	FY20 Post-IFRS 16 £m
Cash & cash equivalents**	**67.2**	**67.2**	115.5	115.5
Borrowings – current	**(2.2)**	**(63.6)**	(1.8)	(83.4)
Borrowings – non-current	**(6.9)**	**(280.9)**	(186.9)	(511.9)
Net Debt*	**58.1**	**(277.3)**	(73.2)	(479.8)

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

**Included within cash and cash equivalents is an amount of £6.3m which is restricted and is not available to circulate within the Group on demand.

6. Net Debt to Underlying EBITDA ratio is represented by the ratio of Net Debt to Underlying EBITDA (both of which are defined above).
7. Adjusted Operating Cash Flow is defined as EBITDA plus share-based payment transactions and loss on disposal of property, plant and equipment, less working capital movements and movement in provisions; as reconciled below.

	FY21 Pre-IFRS 16 £m	**FY21 Post-IFRS 16 £m**	FY20 Pre-IFRS 16 £m	FY20 Post-IFRS 16** £m
Underlying EBIT	**101.8**	**114.5**	55.4	67.2
Depreciation, amortisation & impairment	**38.0**	**118.5**	37.2	118.7
Underlying EBITDA	**139.8**	**233.0**	92.6	185.9
Non-underlying operating expenses	**(37.3)**	**(35.0)**	(32.1)	(34.2)
EBITDA	**102.5**	**198.0**	60.5	151.7
Share-based payment transactions	**6.4**	**6.4**	1.0	1.0
Loss on disposal of property, plant & equipment	**1.7**	**1.7**	2.8	2.8
Working capital movements**	**43.4**	**49.0**	48.7	38.3
Provisions movement and other**	**32.6**	**25.7**	(3.1)	(0.7)
Adjusted Operating Cash Flow*	**186.6**	**280.8**	109.9	193.1

*The statutory 53-week period to 3 April 2020 comprises reported results that are non-comparable to the 52-week period reported in the current period.
**As restated see note 11

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

	FY21 Pre-IFRS 16 £m	**FY21 Post-IFRS 16 £m**	FY20 Pre-IFRS 16 £m	FY20 Post-IFRS 16** £m
Adjusted Operating Cash Flow**	**186.6**	**280.8**	109.9	193.1
Capital expenditure	**(28.0)**	**(27.5)**	(34.1)	(33.6)
Net finance costs	**(5.5)**	**(15.5)**	(2.4)	(13.2)
Taxation	**(10.8)**	**(10.8)**	(16.3)	(16.3)
Exchange movements	**3.0**	**2.1**	(2.5)	(2.0)
Free Cash Flow*	**145.3**	**229.1**	54.6	128.0

*The statutory 53-week period to 3 April 2020 comprises reported results that are non-comparable to the 52-week period reported in the current period.
** As restated see note 11

Halfords Group plc

Consolidated Income Statement

For the 52 weeks to 2 April 2021

For the period		52 weeks to 2 April 2021			53 weeks to 3 April 2020		
		Before Non-underlying items	**Non-underlying items (note 4)**	**Total**	Before Non-underlying items	Non-underlying items (note 4)	Total
	Notes	**£m**	**£m**	**£m**	£m	£m	£m
Revenue		**1,292.3**	**-**	**1,292.3**	1,155.1	-	1,155.1
Cost of sales		**(636.0)**	**-**	**(636.0)**	(565.4)	-	(565.4)
Gross profit		**656.3**	**-**	**656.3**	589.7	-	589.7
Operating expenses	2	**(541.8)**	**(35.0)**	**(576.8)**	(522.5)	(34.2)	(556.7)
Results from operating activities	3	**114.5**	**(35.0)**	**79.5**	67.2	(34.2)	33.0
Finance costs	5	**(15.0)**	**-**	**(15.0)**	(13.9)	-	(13.9)
Finance income	5	**-**	**-**	**-**	0.3	-	0.3
Net finance expense		**(15.0)**	**-**	**(15.0)**	(13.6)	-	(13.6)
Profit before income tax		**99.5**	**(35.0)**	**64.5**	53.6	(34.2)	19.4
Income tax expense	6	**(17.4)**	**6.1**	**(11.3)**	(6.9)	5.0	(1.9)
Profit for the financial period attributable to equity shareholders		**82.1**	**(28.9)**	**53.2**	46.7	(29.2)	17.5
Earnings per share							
Basic earnings per share	8	**41.7p**		**27.1p**	23.7p		8.9p
Diluted earnings per share	8	**40.7p**		**26.4p**	23.3p		8.7p

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

Consolidated Statement of Comprehensive Income

For the 52 weeks to 2 April 2021

	Notes	**52 weeks to 2 April 2021 £m**	53 weeks to 3 April 2020 £m
Profit for the period		**53.2**	17.5
Other comprehensive income			
Cash flow hedges:			
Fair value changes in the period		**(9.6)**	7.9
Income tax on other comprehensive income	6	**1.6**	(0.7)
Other comprehensive income for the period, net of income tax		**(8.0)**	7.2
Total comprehensive income for the period attributable to equity shareholders		**45.2**	24.7

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

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

Halfords Group plc

Consolidated Statement of Financial Position

For the 52 weeks to 2 April 2021

	2 April 2021 £m	3 April 2020 £m
Assets		
Non-current assets		
Intangible assets	**398.3**	395.7
Property, plant and equipment	**81.3**	83.1
Right-of-use assets	**282.8**	349.9
Derivative financial instruments	**0.1**	-
Deferred tax asset	**12.3**	7.3
Total non-current assets	**774.8**	836.0
Current assets		
Inventories	**143.9**	173.0
Trade and other receivables	**86.1**	53.5
Assets held for sale	**6.0**	-
Derivative financial instruments	**0.5**	8.7
Current tax assets	**3.1**	8.2
Cash and cash equivalents	**67.2**	115.5
Total current assets	**306.8**	358.9
Total assets	**1,081.6**	1,194.9
Liabilities		
Current liabilities		
Borrowings	**(0.2)**	(0.2)
Derivative financial instruments	**(5.9)**	(1.1)
Lease liabilities	**(63.4)**	(83.2)
Trade and other payables	**(270.2)**	(217.0)
Provisions	**(24.5)**	(9.7)
Total current liabilities	**(364.2)**	(311.2)
Net current (liabilities)/assets	**(57.4)**	47.7
Non-current liabilities		
Borrowings	**-**	(179.1)
Derivative financial instruments	**(0.4)**	-
Lease liabilities	**(280.9)**	(332.8)
Trade and other payables	**(3.3)**	(1.9)
Provisions	**(15.0)**	(4.1)
Total non-current liabilities	**(299.6)**	(517.9)
Total liabilities	**(663.8)**	(829.1)
Net assets	**417.8**	365.8
Shareholders' equity		
Share capital	**2.0**	2.0
Share premium	**151.0**	151.0
Investment in own shares	**(10.0)**	(10.0)
Other reserves	**(1.8)**	4.9
Retained earnings	**276.6**	217.9
Total equity attributable to equity holders of the Company	**417.8**	365.8

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

Halfords Group plc

Consolidated Statement of Changes in Shareholders' Equity

For the 52 weeks to 2 April 2021

	Attributable to the equity holders of the Company						
				Other reserves			
	Share capital £m	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Hedging reserve £m	Retained Earnings* £m	**Total equity £m**
Balance at 29 March 2019	**2.0**	**151.0**	**(10.0)**	**0.3**	**1.6**	**264.4**	**409.3**
Impact of adoption of IFRS 16*	-	-	-	-	**-**	(25.1)	**(25.1)**
Balance at 30 March 2019	**2.0**	**151.0**	**(10.0)**	**0.3**	**1.6**	**239.4**	**384.2**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	17.5	**17.5**
Other comprehensive income							
Cash flow hedges:							
Fair value changes in the period	-	-	-	-	7.9	(2.3)	**5.6**
Income tax on other comprehensive income	-	-	-	-	(0.7)	(0.8)	**(1.5)**
Total other comprehensive income for the period net of tax	-	-	-	-	7.2	(3.1)	**4.1**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**7.2**	**14.4**	**21.6**
Hedging gain and losses transferred to the cost of inventory	-	-	-	-	(4.2)	-	**(4.2)**
Transactions with owners							
Share-based payment transactions	-	-	-	-	-	1.0	**1.0**
Income tax on share-based payment transactions	-	-	-	-	-	(0.2)	**(0.2)**
Dividends to equity holders	-	-	-	-	-	(36.6)	**(36.6)**
Total transactions with owners	-	-	-	-	-	(35.8)	**(35.8)**
Balance at 3 April 2020	**2.0**	**151.0**	**(10.0)**	**0.3**	**4.6**	**217.9**	**365.8**

*The Group initially applied IFRS 16 at 30 March 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application.

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

Halfords Group plc

Consolidated Statement of Changes in Shareholders' Equity (continued)

	Attributable to the equity holders of the Company						
			Other reserves				
	Share capital £m	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	**Total equity £m**
Closing balance at 3 April 2020	**2.0**	**151.0**	**(10.0)**	**0.3**	**4.6**	**217.9**	**365.8**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	53.2	**53.2**
Other comprehensive income							
Fair value changes in the period	-	-	-	-	(9.6)	-	**(9.6)**
Income tax on other comprehensive income	-	-	-	-	1.6	-	**1.6**
Total other comprehensive income for the period net of tax	**-**	**-**	**-**	**-**	**(8.0)**	**-**	**(8.0)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(8.0)**	**53.2**	**45.2**
Other	-	-	-	-	-	(1.3)	**(1.3)**
Hedging gains and losses transferred to the cost of inventory	-	-	-	-	1.3	-	**1.3**
Transactions with owners							
Share options exercised	-	-	-	-	-	-	**-**
Share-based payment transactions	-	-	-	-	-	6.4	**6.4**
Income tax on share-based payment transactions	-	-	-	-	-	0.4	**0.4**
Dividends to equity holders	-	-	-	-	-	-	**-**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**6.8**	**6.8**
Balance at 2 April 2021	**2.0**	**151.0**	**(10.0)**	**0.3**	**(2.1)**	**276.6**	**417.8**

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

Halfords Group plc

Consolidated statement of cash flows

For the 52 weeks to 2 April 2021

	Notes	**52 weeks to 2 April 2021 £m**	53 weeks to 3 April 2020 (Restated)* £m
Cash flows from operating activities			
Profit after tax for the period, before non-underlying items		**82.1**	46.7
Non-underlying items		**(28.9)**	(29.2)
Profit after tax for the period		**53.2**	17.5
Depreciation – property, plant and equipment		**21.0**	24.3
Impairment – property, plant and equipment		**2.8**	5.4
Amortisation and impairment of right-of-use assets		**81.8**	83.0
Amortisation – intangible assets		**12.9**	11.4
Net finance costs		**15.0**	13.6
Loss on disposal of property, plant and equipment and intangibles		**1.7**	2.8
Equity-settled share-based payment transactions		**6.4**	1.0
Exchange movement		**2.1**	(2.0)
Income tax expense		**11.3**	1.9
Decrease in inventories		**35.0**	3.9
Increase in trade and other receivables*		**(26.2)**	(1.0)
Increase in trade and other payables*		**40.2**	35.4
Increase/(decrease) in provisions*		**25.7**	(0.7)
Income tax paid		**(10.8)**	(16.3)
Net cash from operating activities		**272.1**	180.2
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		**(11.5)**	(10.9)
Purchase of intangible assets		**(11.8)**	(12.5)
Purchase of property, plant and equipment		**(15.7)**	(21.1)
Net cash used in investing activities		**(39.0)**	(44.5)
Cash flows from financing activities			
Finance income received		**-**	0.3
Finance costs paid		**(5.5)**	(2.2)
Repayment of loan following acquisition		**-**	(1.8)
Proceeds from loans, net of transaction costs		**-**	1,377.0
Repayment of borrowings		**(180.0)**	(1,262.0)
Interest paid on lease liabilities*		**(10.0)**	(11.3)
Payment of capital element of leases*		**(85.9)**	(76.4)
Dividends paid		**-**	(36.6)
Net cash used in financing activities		**(281.4)**	(13.0)
Net (decrease)/increase in cash and bank overdrafts	9	**(48.3)**	122.7
Cash and cash equivalents at the beginning of the period		**115.3**	(7.4)
Cash and cash equivalents at the end of the period	9	**67.0**	115.3

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

*Adjustment to reported 3 April 2020 results. See note 11.

Halfords Group plc

Notes to the condensed consolidated financial statements

For the 52 weeks to 2 April 2021

1. General information and basis of preparation

The financial information set out below does not constitute the Group's statutory accounts for the periods ended 2 April 2021 or 3 April 2020 but is derived from those accounts. Statutory accounts for 2020 have been delivered to the Registrar of Companies, and those for 2021 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

The accounts of the Group are prepared for the period up to the Friday closest to 31 March each year. Consequently, the financial statements for the current period cover the 52 weeks to 2 April 2021, whilst the comparative period covered the 53 weeks to 3 April 2020.

The consolidated financial statements of Halfords Group plc and its subsidiary undertakings, together "the Group", have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and IFRS Interpretations Committee ("IFRS IC") Interpretations as adopted by the European Union and on a basis consistent with those policies set out in our audited financial statements for the period ended 3 April 2020 other than for the adoption of the COVID-19 Related Rent Concessions (Amendments to IFRS 16) which did not have a material effect. The financial statements are prepared on a going concern basis and under the historical cost convention, except where adopted IFRSs require an alternative treatment. The principal variations relate to financial instruments (IFRS 9 "Financial instruments"), share-based payments (IFRS 2 "Share-based payment" and leases (IFRS 16 "Leases").

Adoption of new and revised standards

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

New standards and interpretations not yet adopted

All other standards and related adoptions which have been published but not yet adopted are not expected to have a material impact on the consolidated results or financial position of the Group. A full listing will be provided in the statutory accounts.

2. Operating expenses

For the period	**52 weeks to 2 April 2021**	53 weeks to 3 April 2020
	£m	£m
Selling and distribution costs	**422.9**	436.0
	422.9	436.0
Administrative expenses, before non-underlying items	**118.9**	86.5
Non-underlying administrative expenses	**35.0**	34.2
	153.9	120.7
	576.8	556.7

3. Operating profit

For the period	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £m
Operating profit is arrived at after charging/(crediting) the following expenses/(incomes) as categorised by nature:		
Expenses relating to leases of low-value assets, excluding short-term leases of low value assets	**0.7**	0.6
Expenses relating to short term leases	**5.6**	2.5
Rentals receivable under operating leases	**(2.7)**	(3.0)
Landlord surrender premiums	**0.1**	(0.6)
Loss on disposal of property, plant and equipment and intangibles	**1.7**	2.8
Amortisation of intangible assets	**12.9**	11.4
Amortisation of right-of-use assets	**69.6**	73.6
Depreciation and impairment of:		
- owned property, plant and equipment	**21.0**	24.3
Impairment of:		
- owned property, plant and equipment	**2.8**	5.4
- impairment of right-of-use assets	**12.2**	9.4
Trade receivables impairment	**0.1**	0.2
Staff costs	**299.6**	256.2
Cost of inventories consumed in cost of sales	**629.1**	563.8

4. Non-underlying items

For the period	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £m
Non-underlying operating expenses:		
Organisational restructure costs (a)	**5.9**	2.8
Group-wide strategic review (b)	**-**	1.0
Closure costs (c)	**26.0**	26.8
Acquisition and investment related fees (d)	**0.6**	1.9
One-off claims (e)	**2.9**	0.8
Impairment of right-of-use assets (f)	**(0.4)**	0.9
Non-underlying items before tax	**35.0**	34.2
Tax on non-underlying items (g)	**(6.1)**	(5.0)
Non-underlying items after tax	**28.9**	29.2

(a) In the current and prior period separate and unrelated organisational restructuring activities were undertaken.

Current period costs comprised:

- Costs relating to a strategic redesign of our instore operating model undertaken to better meet our customers' expectations and deliver a consistent shopping experience across our estate. Redundancy costs of £5.9m were incurred to transition to the new operating model. These costs have materially been spent during the year.

Prior period costs comprised:

- Redundancy and transition costs of £1.4m relating to roles which have been outsourced or otherwise will not be replaced; and
- £1.4m of asset write-offs, principally resulting from the strategic decision to re-platform the Retail and Autocentres websites.

(b) In the prior periods costs were incurred in preparing and implementing the new Group strategy.

- £0.4m of external consultant costs; and £0.6m of store labour costs, point of sale equipment and other associated costs in completing the cycling space relay across the store estate.

(c) Of the closure costs £28.5m represents costs associated with the closure of a number of stores and garages following a strategic review of the profitability of the physical estate. The costs mostly relate to the impairment of right-of-use assets (£12.2m), tangible assets and property costs as well as ongoing onerous commitments under the lease agreements and other costs associated with the property exits.

Closure costs in the prior period represented costs associated with the closure of the operations of Cycle Republic and the Boardman Performance Centre ("Cycle Republic") following a strategic review of the Group's cycling businesses. The costs mostly relate to the impairment of right-of-use assets, intangible assets, tangible assets and inventories. £2.5m of these costs have been reversed during the year as the Group continues to negotiate lease disposals and was able to release stock provisions previously in place (£1.8m).

(d) In the current and prior period costs were incurred in relation to the investments in Universal Tyre Services, McConechy's Tyre Services and Tyres on the Drive.

- In FY21, £0.6m relating to professional fees in respect of the acquisition of Universal Tyre Services;
- Tyres on the Drive acquisition costs comprised of £1m principally relating to the costs of dual running Halfords Mobile Expert and Tyres on the Drive, as well as the write off of the receivables balance due from Tyres on the Drive related to Halfords Mobile Expert prior to acquisition; and
- £0.9m relating to professional fees in respect of the acquisition of McConechy's Tyre Services.

(e) During the prior year, the Group incurred £0.2m in settling a court case. In addition, a provision of £0.6m was created in relation to the HMRC audit relating to the national minimum wage. The audit has progressed during FY21 and as a result the provision has been increased by £2.9m. This represents management's best estimate of the repayment and fine payable as a result of national minimum wage breaches.

(f) In light of the ongoing COVID-19 pandemic, the Group has revised future cash flow projections for stores and garages. As a result, £0.9m incremental impairment has been recognised in relation to garages where the current and anticipated future performance did not support the carrying value of the right-of-use asset and associated tangible assets. This charge is directly attributable to impairment due to COVID-19 and relates primarily to the right-of-use asset value. During the year, £0.4m of this impairment has been reversed as the stores and garages have returned to a profitable position.

(g) The tax credit of £6.1m represents a tax rate of 17.4% applied to non-underlying items. The prior period represents a tax credit at 14.6% applied to non-underlying items.

5. Finance income and costs

Recognised in profit or loss for the period	**52 weeks to 2 April 2021**	53 weeks to 3 April 2020
	£m	£m
Finance costs:		
Bank borrowings	**(2.5)**	(1.6)
Amortisation of issue costs on loans	**(1.1)**	(0.4)
Commitment and guarantee fees	**(1.1)**	(0.6)
Other interest payable	**(0.3)**	-
Interest payable on lease liabilities	**(10.0)**	(11.3)
Finance costs	**(15.0)**	(13.9)
Finance income:		
Bank and similar interest	**-**	0.3
Finance income	**-**	0.3
Net finance costs	**(15.0)**	(13.6)

6. Taxation

For the period	**52 weeks to 2 April 2021**	53 weeks to 3 April 2020
	£m	£m
Current taxation		
UK corporation tax charge for the period	**16.9**	5.4
Adjustment in respect of prior periods	**(1.0)**	(0.5)
	15.9	4.9
Deferred taxation		
Origination and reversal of temporary differences	**(4.7)**	(1.5)
Adjustment in respect of prior periods	**0.1**	(1.5)
	(4.6)	(3.0)
Total tax charge for the period	**11.3**	1.9

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

For the period	**52 weeks to 2 April 2021**	53 weeks to 3 April 2020
	£m	£m
Profit before tax	**64.5**	19.4
UK corporation tax at standard rate of 19% (2020: 19%)	**12.3**	3.7
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**0.9**	0.5
Employee share options	**(1.3)**	-
Other disallowable expenses	**0.6**	0.8
Adjustment in respect of prior periods	**(0.9)**	(1.9)
Impact of overseas tax rates	**(0.3)**	(0.3)
Impact of change in tax rate on deferred tax balance	**-**	(0.9)
Total tax charge for the period	**11.3**	1.9

The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from 1 April 2023. This rate has not been substantively enacted at the balance sheet date, as result deferred tax balances as at 2 April 2021 continue to be measured at 19%. If all of the deferred tax was to reverse at the amended rate the impact to the closing deferred tax position would be to increase the deferred tax asset by £3.9m.

The effective tax rate of 17.5% (2020: 9.7%) is lower than the UK corporation tax rate principally due to the impact of deferred tax on accounting for share options and adjustments in respect of provisions held in respect of prior periods.

The tax charge for the period was £11.3m (2020: £1.9m), including a £6.1m credit (2020: £5.0m credit) in respect of tax on non-underlying items.

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

In this period, the Group's contribution from both taxes paid and collected exceeded £170m (2020: £208.0m) with the main taxes including corporation tax of £10.8m (2020: £16.3m), net VAT of £97.4m (2020: £101.4m), employment taxes of £61.2m (2020: £54.3m) and business rates of £0.9m (2020: £36.3m).

7. Dividends

For the period	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £m
Equity – ordinary shares		
Final for the 53 weeks to 3 April 2020 – (52 weeks to 29 March 2019: 12.39p)	**-**	24.4
Interim for the 52 weeks to 2 April 2021 – (53 weeks to 3 April 2020: 6.18p)	**-**	12.2
	-	36.6

In addition, the Directors are proposing a final dividend of 5.0p per share (2020: £nil) in respect of the financial period ended 2 April 2021.

8. Earnings per share

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 52 weeks to 2 April 2021.

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

For the period	52 weeks to 2 April 2021 Number of shares m	53 weeks to 3 April 2020 Number of shares m
Weighted average number of shares in issue	**199.1**	199.1
Less: shares held by the Employee Benefit Trust (weighted average)	**(2.0)**	(2.1)
Weighted average number of shares for calculating basic earnings per share	**197.1**	197.0
Weighted average number of dilutive shares	**4.9**	3.3
Total number of shares for calculating diluted earnings per share	**202.0**	200.3

For the period	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £m
Basic earnings attributable to equity shareholders	**53.2**	17.5
Non-underlying items (see note 4):		
Operating expenses	**35.0**	34.2
Tax on non-underlying items	**(6.1)**	(5.0)
Underlying earnings before non-underlying items	**82.1**	46.7

For the period	52 weeks to 2 April 2021	53 weeks to 3 April 2020
Basic earnings per ordinary share	**27.1p**	8.9p
Diluted earnings per ordinary share	**26.4p**	8.7p
Basic underlying earnings per ordinary share	**41.7p**	23.7p
Diluted underlying earnings per ordinary share	**40.7p**	23.3p

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

	At 3 April 2020	Cash flow	Other non-cash changes	**At 2 April 2021**
	£m	£m	£m	**£m**
Cash and cash equivalents at bank and in hand	115.3	(48.3)	-	**67.0**
Debt due after one year	(179.1)	180.0	(0.9)	-
Total net debt excluding leases	(63.8)	131.7	(0.9)	**67.0**
Current lease liabilities	(83.2)	95.9	(76.1)	**(63.4)**
Non-current lease liabilities	(332.8)	-	51.9	**(280.9)**
Total lease liabilities	(416.0)	95.9	(24.2)	**(344.3)**
Total net debt	(479.8)	227.6	(25.1)	**(277.3)**

Non-cash changes include finance costs in relation to the amortisation of capitalised debt issue costs of £1.1m (2020: £0.4m), additions of new leases, modifications to leases and foreign exchange movements and changes in classification between amounts due within and after one year.

Cash and cash equivalents at the period end consist of £67.2m (2020: £115.5m) of liquid assets and £0.2m (2020: £0.2m) of bank overdrafts.

10. Leases

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

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

i. Amounts recognised in the consolidated statement of financial position

Right-of-Use Assets

	Land and buildings	**Equipment**	**Total**
	£m	**£m**	**£m**
At 3 April 2020	344.0	5.9	349.9
Additions on acquisition of subsidiary	2.7	-	2.7
Additions to right-of-use assets	12.5	0.6	13.1
Amortisation charge for the year	(66.1)	(3.5)	(69.6)
Effect of modification of lease	5.8	-	5.8
Derecognition of right-of-use assets	(6.8)	(0.1)	(6.9)
Impairment	(12.2)	-	(12.2)
At 2 April 2021	**279.9**	**2.9**	**282.8**

	Land and buildings	**Equipment**	**Total**
	£m	**£m**	**£m**
At 30 March 2019	388.5	7.8	396.3
Reclassification from intangibles	2.4	-	2.4
Additions on acquisition of subsidiary	11.1	0.3	11.4
Additions to right-of-use assets	10.0	1.9	11.9
Amortisation charge for the year	(70.2)	(3.4)	(73.6)
Effect of modification of lease	11.6	-	11.6
Derecognition of right-of-use assets	-	(0.7)	(0.7)
Impairment	(9.4)	-	(9.4)
At 3 April 2020	**344.0**	**5.9**	**349.9**

Lease Liabilities

	Land and buildings £m	Equipment £m	Total £m
At 3 April 2020	409.8	6.2	416.0
Additions on acquisition of subsidiary	2.7	-	2.7
Additions to lease liabilities	12.6	0.5	13.1
Interest expense	9.8	0.2	10.0
Effect of modification to lease	5.9	-	5.9
Lease payments	(92.7)	(3.2)	(95.9)
Disposals to lease liabilities	(6.8)	-	(6.8)
Foreign exchange movements	(0.7)	-	(0.7)
At 2 April 2021	**340.6**	**3.7**	**344.3**

	Land and buildings £m	Equipment £m	Total £m
At 30 March 2019	448.6	8.2	456.8
Additions on acquisition of subsidiary	11.0	0.2	11.2
Additions to lease liabilities	10.5	1.8	12.3
Interest expense	11.1	0.2	11.3
Effect of modification to lease	11.7	-	11.7
Lease payments	(83.8)	(4.2)	(88.0)
Foreign exchange movements	0.7	-	0.7
At 3 April 2020	**409.8**	**6.2**	**416.0**

Lease liabilities	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £m
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**71.2**	92.9
Between one and two years	**68.8**	76.5
Between two and three years	**64.4**	65.1
Between three and four years	**55.1**	60.4
Between four and five years	**43.2**	51.5
Between five and six years	**28.4**	41.9
Between six and seven years	**19.3**	27.3
Between seven and eight years	**12.1**	18.2
Between eight and nine years	**5.3**	11.1
Between nine and ten years	**3.5**	4.3
After ten years	**3.5**	5.9
Total contractual cash flows	**374.8**	455.2

ii. Amounts recognised in the consolidated income statement

	Land and buildings £m	Equipment £m	Total £m
52 weeks ended 2 April 2021			
Amortisation charge on right-of-use assets	66.1	3.5	69.6
Interest on lease liabilities	9.8	0.2	10.0
Expenses relating to short-term leases	5.6	-	5.6
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	0.7	0.7
53 weeks ended 3 April 2020			
Amortisation charge on right-of-use assets	70.2	3.4	73.6
Interest on lease liabilities	11.1	0.2	11.3
Expenses relating to short-term leases	2.5	-	2.5
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	0.6	0.6

iii. Amounts recognised in the consolidated statement of cash flows

The total cash outflow for leases for the period ended 2 April 2021 was £95.9m (2020: £87.7m).

11. Prior period adjustment

Following refinements to Halfords IFRS 16 reporting process, the consolidated statement of cash flows for the 53 weeks to 3 April 2020 was adjusted to reduce the cash outflow for capital payments on leases (in financing activities) by £11.3m and to reduce the working capital movements across other payables, receivables and provisions (in operating activities) by the same amount to exclude from these line items amounts that had been eliminated from the balance sheet for IFRS 16 reporting purposes and should have similarly been eliminated in the operating cash flow reconciliation. These adjustments have had no impact on the reported profit or net assets of the Group.