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Halfords FY18 Preliminary Results

Tuesday, 22nd May 2018

Introduction

Graham Stapleton

CEO, Halfords Group

Good morning everyone and welcome to the Halfords Group Preliminary Results presentation for FY18. I am really pleased to be standing in front of you today as the new Halfords CEO. As you know, I have been in the Group now for about four months and in that time I have spent a lot of time looking and learning about the business, its customers and its competitors. I have also met a lot of passionate people across the Group and I have been very busy with my team developing and evolving the longer-term strategy, which I will look forward to updating you on later in September.

Agenda

That means today is principally about the FY18 results and therefore the agenda is as follows. Jonny will take you through the operational and financial highlights for FY18. We will also do an FY19 outlook. I will then give some initial thoughts on Halfords and my introductory thoughts. Then we plan to do Q&A after that.

FY18 Operational Highlights, Financial Results and FY19 Outlook

Jonny Mason

CFO, Halfords Group

FY18 Overview

Morning everybody. I am going to start with a few summary points for the year. We were pleased with the overall performance of the business in such a challenging retail environment, characterised by reports of weaker consumer confidence and by the loss of a number of retail names from the high street. In those circumstances we achieved solid sales growth in both our Motoring and Cycling categories. Our focus on improving service and services delivered further strong sales growth and improvements to our digital presentation saw further growth online.

Our FX mitigation plans worked well. Against around £25m year-on-year increase in our input costs from the weaker pound against the dollar, our profits declined by just £4m which reflected the significant benefits we took in mitigation. We achieved Group profit before tax of £71.6m which was in line with consensus at £71.2m. We continued to make operational improvements, which I will talk about in just a moment, and finally the Group continued to generate good cash flow with free cash flow improved year-on-year.

Operational Highlights

We improved our customer relationship metrics such that we can now match 59% of retail transactions to specific customers, which is a vast improvement on 3% in November 2015. We are starting to derive benefits from that data. For example, click-through from personalised email communications last year drove 2.3 million visits to our website. We have updated our training programmes with new material, especially on the delivery of services, and we maintained our target training level of 70% of eligible colleagues at Gear 2 level. We now have an average of eight Gear 2 trained colleagues per shop and this is up from only a handful three years ago.

Retail colleague turnover was maintained at the improved levels of last year of around 35% which was much better than three years ago when it was 40%. Our ranking in the *Sunday Times* 'Best Big Companies to Work for' survey improved from 13th last year, which was already good, to 9th in the year just finished, which is a tremendous endorsement of the excellent and engaged team of colleagues that we are fortunate enough to work with at Halfords.

We continued to make improvements in some product ranges. In Motoring we delivered our own brand of dash cams which launched shortly after the year-end and we added new services such as AdBlue top-up, car fob repair and fuse fitting. Then in Cycling we increased our range of electric bikes under our own Carrera brand, along with growth in electric bike care plans. We also refreshed our range of Boardman bikes and the parts, accessories and clothing as well. We were pleased with the positive momentum in Autocentres with encouraging early signs following the operational review in the year. I will say more about that later on.

Group Financial Highlights

Starting at the top of this slide, Group revenue was up 3.7% year-on-year which was 2% up like-for-like. EBITDA was up marginally year-on-year but profit before tax, which you can see in the middle of the slide, was down 5%. As we have previously explained, the FX change brought significant input costs headwinds for the Group because around half of what we sell in pounds in the retail business we buy in US dollars. This cost was mostly but not completely recovered through our mitigation actions and we will see that as well in a minute.

Earnings per share were down less than PBT because of an improved tax rate. Free cash flow was up £3.8m to £41.5m and we will look at cash flow in a moment. Then at the bottom of the slide you can see for the final ordinary dividend the Board has recommended an increase of 3%, which would take the full-year dividend to 18.03p. This recommendation reflects continued good cash generation and our confidence in the strength of the business and in its future prospects.

Retail Like-for-Like Sales

The Retail segment includes Halfords, Tredz and Cycle Republic. Revenue increased by 4.1% in total and 2.3% on a like-for-like basis, with growth in both Motoring and Cycling. Motoring sales grew 1.9% with Car Maintenance sales up 3.7% like-for-like, due to good growth in the sale of parts and fitting services, in workshop and in hand tools. In Car Enhancement like-for-like decreased by 2.2% which reflected the continuing decline in satnavs, although we did gain share as others exited that market. That decline was partially offset by good growth in sales of car cleaning products and dash cams. Lastly Travel Solutions, like-for-like sales increased by 3.6%. Child seats declined as we annualised the previous year's boost from the change in legislation but this was more than offset by sales of staycation services and products including roof boxes, cycle carriers and camping equipment.

Cycling sales grew by 2.9% on a like-for-like basis. As mentioned previously the strength of the market was impacted by poor weather during the peak summer season last summer and the fourth quarter as well as by price rises. Our bike volumes were down, as were the markets, but we still achieved sales growth in all three sub-categories of Bikes, PACs[1] and Cycle Repair. Cycle Republic and Tredz continued to deliver good growth.

Looking at the bubbles at the bottom of the page you can see that service-related sales continued to grow quickly at 14% and this was driven in particular by increased fitting of 3Bs or bulbs, blades and batteries, together with higher dash cam fitting and cycle repair services. We also added new services to our menu in the year and now have over 70 different instore services on offer. Online retail sales grew 6% like-for-like and remember that these are closely coupled to sales from shops because of the high proportion of our online orders, around 85%, that are collected instore, which is a real, unique feature of Halfords. Unlike some other retailers our sales both online and offline grew positively in the year.

Retail Financial Highlights

Turning to the Retail P&L I have already mentioned the revenue growth of 4.1% so let us look at gross margin which was down 123bps for the full-year. This was principally as a result of the FX impact already mentioned. We will look more at that in a moment. Operating costs were up 2.9% and you can see the breakdown into components on the right-hand side of the slide. Store colleague costs increased 3.9%, mostly due to inflation in the living and minimum wage rates as well as additional hours in shops. Store occupancy costs increased by 2.7% and this was mostly because of depreciation and utilities, whilst rent and rates remained about flat.

Warehouse and distribution costs increased by 5.5% and this was due to bulkier items flowing through the supply chain, a higher proportion of roof boxes, child seats and bikes, as well as additional courier costs for our improved home delivery proposition. Lastly an increase in support costs of 0.5% reflected the impact of pay rises and depreciation but was offset by tight cost control in other areas. Then at the bottom of the slide you can see that EBIT and EBITDA were down about £4m and £2m respectively which as a reminder is after an adverse impact of around £25m from the FX effect.

Retail Gross Margin

First of all there was around 270bps of dilution from the gross impact of the weaker pound against the dollar i.e. before our mitigation. There was also around negative 50bps from mix effects of which 20bps was the acquisition of Tredz and 30bps was category mix in our sales. Then thirdly there was nearly 200bps of positive impact from our mitigation actions and a few other movements. As we have said before, our mitigation plans have three components: supplier negotiations and support, process and cost efficiencies, and some price rises, mostly in bikes. These mitigation actions worked just about as expected in this year.

FX impact and mitigation

Now let us look at the impact of FX and mitigation recently and then going forward. This is the complicated bit, cold towels on. On this chart in the top graph the solid red lines show the growth in the cost impact of the weaker pound against the US dollar, building up to about £40m by the end of last year. In the graph below the solid green bars show our mitigation actions which started later than the FX impact and built up to a recovery which was just over

[1] PACs refers to Parts, Accessories and Clothing in cycling.

half of the impact by the end of last year. That leads to the net negative impact which is shown on the bottom graph in the solid blue lines.

Then looking forward from last year, which is the hollow bars, there are two factors to consider. First is the Cycling market and second is FX rates. This year we have not seen a similar rise in market bike prices as we saw last year and that is for two reasons. Firstly, the market is weaker and certainly impacted by the adverse weather in the fourth quarter. We do not think it is in a position to sustain substantial price increases. Secondly, because sterling has recovered part of that initial fall against the US dollar, which means that further price rises are not required in order to recover all of the FX impact. The rest of the FX impact will recover naturally when FX hedges roll off and for us it will be in FY20.

Here the hollow red bars at the top decreasing is the effect of the better FX rate flowing through after our hedges roll off. Even if we assume no further mitigation then you can see on the bottom graph with the hollow blue bars that almost all of the FX mitigation is recovered throughout FY20. We will take questions on that later.

Autocentres Financial Highlights

At the top of the slide you can see that revenues for the year increased by 0.8% in total and by 0.2% like-for-like. This reflected the transition away from low-margin, third-party affiliate tyre sales to increased direct tyre sales and service maintenance and repair work. That switch along with better margins from buying contributed to the improved gross margin, which increased nearly 240bps. Operating costs increased by 2.7% and at the bottom of the slide there you can see that EBIT and EBITDA were about £2m and £3m higher respectively.

Autocentres – Operational Review Update

As previously noted, during the year we undertook an operational review of Autocentres. The conclusions included that we have some really good operations and some really good operators. There are significant opportunities for profit improvement by focusing on optimising our gross margin, by implementing better systems and by more consistent application of best practice across under-performing garages.

The programme to transform the Autocentres operating model is now well under way. It will take some time but early progress is encouraging. In particular colleague turnover has reduced to record lows and we now have hybrid and electric vehicle technicians in place across the whole country.

Cash Flow

The Group continued to demonstrate good underlying cash generation. The chart on this slide shows the cash flow movements which I will walk you through. First of all, working capital was adverse by £12.6m in the year which was principally due to the timing of VAT payments i.e. temporary. There was a small increase in stock of £4m. CAPEX was £37m which is in line with recent years and after tax, interest and other costs our free cash flow was £41.5m which was up £3.8m year-on-year. Dividend payments totalled £34.8m and there was a further £8.6m of M&A payments which represented planned, follow-on investments in Tredz and Tyres on the Drive. Moving to the bubbles at the bottom of the slide net debt to EBITDA was broadly flat year-on-year at 0.8x EBITDA and as previously noted, the Board has recommended a 3% increase in the ordinary dividend. Finally, it is worth noting that during the year we took the opportunity to extend the term of our revolving credit facility from 2019 to 2021. To increase it from £170m to £200m and also to secure lower pricing.

FY18 Summary

To summarise FY18 at this stage, we have continued to make further operational improvements throughout the year, we are pleased with the financial performance in a difficult retail environment and it was in line with expectations. The impact of the weaker pound against the US dollar has played out as guided. Since the Brexit vote we have seen a cumulative £40m of additional input costs compared to FY16. However, our profits for FY18 are down only £10m compared to that year. We continue to expect to fully recover the FX headwind over time but we now think the remaining unmitigated amount will be recovered mostly through improved exchanged rates rather than further bike price rises. That therefore will mostly arise in FY20. Cash generation remained good, free cash flow was up year-on-year and the Board has proposed an increase in the ordinary dividend reflecting confidence in the strength of the business and its prospects for the future.

FY19 Outlook

I will finish then with a few words on the outlook for FY19. We have said in our announcement today that we anticipate a robust Motoring market and that we continue to see good growth prospects in the Cycling market. Although we are not expecting further bike price rises this year, as we saw last year. In both Motoring and Cycling we have strong market positions and we will continue to develop our market shares. Our capital allocation priorities and our debt target remain unchanged and we have continued to grow the ordinary dividend. Our FX mitigation, as I explained earlier, we still expect to recover all of it over time but we now think that recovery will come from improved FX rates and therefore will be mostly in FY20. We are pleased with our progress on services and customer relationship management and we have decided to accelerate investment in those areas this year to drive further growth. The combination of these two factors, the FX mitigation and the accelerated investment, means that we currently anticipate our PBT in FY19 to be broadly in line with FY18.

Finally on a personal note just before moving on from Halfords, I want to say I am really proud of what progress has been achieved over the last few years in rather difficult circumstances. The team at Halfords is amazing, really great colleagues across shops, garages, DCs and the support centre. Halfords has a great future ahead and I wish them every success.

Initial Thoughts on Halfords

Graham Stapleton

CEO, Halfords Group

Thanks Jonny and while you are not moving anywhere soon very fast I want to take the opportunity on behalf of the Halfords business to say a big thank you to Jonny for his significant contribution over the last few years and also for helping with my introduction. As I have said already earlier today we are going to give an update on the future plans later in September. What I plan to do now is give some initial thoughts on Halfords.

Progress of the Last Few Years

There has been some good progress over the last few years. The retail product and services training programmes are now well-embedded and provide us with a distinct competitive advantage in our markets. There has been good development of the services business including extensive training for our colleagues together with the introduction of new services for customers. Colleague engagement has improved, evidenced by our own internal surveys and also by the *Sunday Times* 'Best Big Companies to Work for' survey. We know our customers better and have implemented a single customer view. The Group's presence in the cycling market has been enhanced with the launch of Cycle Republic and the acquisition of Tredz. We now service all customer segments. Finally, there have also been some improvements made to infrastructure and our IT and logistics capabilities.

Key Strengths

As a consequence of this progress and a good legacy I think Halfords has some key strengths. Firstly, Halfords has a strong heritage and very good brand awareness. It is a market leader in many of the categories in which it operates already. It has engaged colleagues with a passionate and a can-do attitude and when customers see us at our best here it is a true and real differentiator. The business is cash-generative with a resilient financial position. Halfords also has low gearing with relatively short leases and no pension liability. All good.

Unrealised Potential

I believe there are also areas of significant unrealised potential though. We already have a unique and scaled services business but many people are not aware of the size and breadth of what we currently offer. It is a real hidden gem. We have a Group-wide customer database that provides powerful insight and enhances our ability to become more relevant to our existing customers and attract new ones. We already have an established, scaled and fast-growing B2B business across both Motoring and Cycling. The business has come a long way. However the world of retail is ever-changing. Customers are becoming more demanding and new entrants are disrupting traditional bricks and mortar businesses. This brings its own challenges but it also brings real opportunities for those who can truly position themselves as service-led specialists.

Summary

To summarise, this is a good business with a great future. There has been some good strategic progress over the last few years and the business has some key strengths that I have just talked through. There are also some unrealised potential opportunities, specifically we are going to accelerate investment in both services and customer capability. I look forward to talking to you about those investments in more detail in September, along with other opportunities then as well. What the business has to do is move from being customer-aware to customer-obsessed, to a market leader and a market-maker. It has to continue to enhance the way that it looks at its services and its specialisms. It has to be relentless about cost efficiency and cash generation. I am really looking forward to leading the company on that journey.

Before I close for Q&A though, I want to say a really big thank you on behalf of the business and the Board to Dennis. His contribution and commitment to the business over the last nine years have been absolutely significant. He has been a true and fabulous brand ambassador to Halfords. I know he will be very much missed by a lot of people across the business, including Jonny and I. Thank you to Dennis.

Q&A

Charlie Muir-Sands (Deutsche Bank): Three questions please. The first one is to you, Graham. You have talked today about accelerating investments, which is a component of why you expect profits before tax to be broadly flat in the year ahead. No real mention about capital expenditure. Do you think that the current level of capital expenditure, the level of pace of store refresh and the quality of the store estate, and the digital capabilities are reconciled at the current level? Do you think you need to also perhaps step up there?

The second question is more for Jonny please. I appreciate we could probably put a ruler to your very helpful charts around gross margins but I wondered if you could give us what is the hedge rate and level of cover last year, this year and FY20.

Then the last one was a reference to your balance sheet priorities. You did not announce a special dividend today but the capital allocation policy is unchanged. Is that something that we could think about later in this year? Thank you very much.

Graham Stapleton: In terms of the capital we are going to give a much clearer view on what the capital requirements will be in September. At the moment the services investment that we are making in customer capability investments we are indicating there is going to be some OPEX cost or some costs that go with that. We are not necessarily guiding this year for a significantly increased CAPEX number.

Jonny Mason: Let me take the FX one first then. Last year we were hedged at about 1.29 in FY18. In the first half of this year it is a net draw in that it is 1.30 for the first-half, mostly hedged. For the whole of this year, i.e. FY19, we are about 60% hedged so far. At current rates it would end up being a blended rate somewhere between 1.30 and 1.35. Then for next year there is not so much hedging in place yet, a small proportion so it goes back to wherever the spot rate is. The special dividend, you are right, we have not changed our capital allocation policies or debt target but let us see what happens in September.

Jonathan Pritchard (Peel Hunt): On the service point, they have all been getting trained pretty intensively for various Chief Execs over the past few years, eight of them per store at Gear 2 etc. Is it simply that there is not enough of them? They are actually quite well trained but we need more people. Sales densities need to rise and that could be at the heart of the OPEX increases.

Secondly, to develop Charlie's question, do you think you have got the right number of shops? Do you think it is too high or too low?

Thirdly and diplomatically as you can, any thoughts on the competition?

Graham Stapleton: The investment in services is a combination of things. It is to improve the awareness of services. I talked about it early. It is a hidden gem. We do not want it to be that hidden from our customers. It will be some extra training and I will come onto that in a second in terms of why we need to do that. It will be some acquisition of customers or services, particularly in the last quarter of the year. Those are the three things that we are focused on there. In terms of training we have to continue to keep training colleagues because the technology in the vehicles and in bikes actually carries on as it does. We have to be ahead of the curve. I think what Jonny mentioned was that we were focused very much on electric and hybrid vehicle training at the moment and we think when we look at the way the car park is going to change over time being in a first-mover advantage there will be very, very important to us. There will always be more training.

In terms of turnover, as we have also mentioned, that has been improving so it is not about replacing necessarily people that are leaving more frequently. It is upskilling and making sure we have got an even better number of trained colleagues.

Jonny Mason: In terms of the number of shops, that has not changed dramatically from what we have said previously which is we have an extensive network of shops which gives us access to the whole UK population within decent drive times. Very few of them do not make money. It is under constant review. We are fortunate enough to have a short lease life and whenever we get towards lease lengths we look to optimise. Sometimes we will get rent deals. I suppose shops are likely to drift down over time but we do not think it is a fundamental change required there.

Graham Stapleton: Over to your last question, in terms of competition it is quite a broad competitive set that Halfords has. It could be split into two parts. In terms of core Motoring products and core Cycling, so mass market Cycling, our competition is very much the generalists and generalist/specialists. The likes of Amazon, Decathlon, Argos, quite a broad set of generalist specialists but no real super-specialist then competing against us, either in Motoring products or in core Cycling. If you look at the other side of the business in terms of premium cycling and Autocentres it is a much more fragmented competitive set with a lot more independents in play, independent garages, independent bike shops, and therefore more difficult to understand how big the market is and where the competitive tactics will be. However we are very clear about those competitive parts of the market and how we are going to target them. That will be very clear in the strategy in September.

Adam Cochrane (Citi): In terms of the Cycling performance in Q4, how much of that do you attribute to the weather versus maybe an underlying weakness in the cycling market?

Then secondly, looking at your services investment I have seen various trials of taking the services to people's cars whether they are at home. Is that an area where you have a competitive advantage given all of the knowledge that you have and where some of this investment you are taking it out of the stores and taking it to further afield? Is that a risky proposition or is it something that genuinely excites you?

Jonny Mason: On Cycling, we have always said, 'Please do not look at short-term results in the bike market.' What we achieved last year was like-for-like sales growth of 2.9%. The Q4 was weak. There are two factors going on. There were price rises but there was very difficult weather and we would not expect the market to continue like that as the weather changes. Let us go into the new financial year. The market is there to be had and we are in the strongest position to take it.

Graham Stapleton: In terms of the other question around mobile servicing, we have been working closely with Tyres on the Drive, as you know, and made some investments in that business. That has given us a very good understanding of that part of the market. We have also launched a trial of our own Halfords Mobile Expert with a broader proposition of products and services delivered to home. We are looking to extend that trial out. Purely from a customer perspective, having a retail, a garage and a mobile opportunity for fixing, repairing and servicing has got to be a good thing, if we can make that work financially.

Adam Cochrane: In terms of gross margin outlook for next year with the development of services, with the benefit of FX we should be seeing a positive gross margin development from most of the drivers. Maybe oil price is a bit of a headwind but the other factors should be broadly positive for gross margin as we look into the current year.

Jonny Mason: What we will not have is the negative drag from further FX impact. That is finished now. Over recent years we have talked about a slow drift in gross margin because of mix into lower margin categories, with Cycling growing faster than Motoring, etc. Next year as we have just identified from the FX rates, there is a small benefit from FX with most of it to come in FY20. That drift from mix versus that small FX upside are likely to be pretty close.

Andy Wade (Numis Securities): Thinking about FX and FX mitigation you point us in the direction of £25m and profits only down £3-4m but would it be unfair to instead of looking at it that way in terms of the gross number, characterise it as COGS has increased, the market increase prices to offset that, your net impact from that was £6m. Even if we give the full difference between 200bps and 270bps on gross margin and say that none of that was you not being able to put through the price increases, we are talking about £77m versus £75m last year on a constant FX basis. It feels like all the other years, which is on an underlying basis the business is flat-lining on profit. Looking at the gross FX numbers as you give them it makes it feel like that is not the case. Is that an unfair way of looking at things that it is basically flat profit year-on-year on an underlying basis despite some progress?

Jonny Mason: I think it is a harsh interpretation, would be how I would characterise it because recovering £20m through mitigation actions required a lot of delivery from the organisation. Some of it was market pricing but you have to trade that competitively. We did a lot of work with suppliers and cost efficiencies in order to keep our price rises to a minimum. It is right to give the business credit for delivering £20m of mitigation in the year so far and a bit in the year before that. Thereafter there are a lot of cost headwinds out there other than FX which we have also managed to turn into a positive development in profit. We have got rises in staff costs, as you know, living wages, people costs and all that stuff, which we have managed to turn positive through a lot of efficiency programmes in shops.

Andy Wade: What were bike prices up year-on-year? Jill talked about market up 10% and you guys a little bit less than that.

Jonny Mason: That is right and it stayed consistently that throughout the year.

Andy Wade: Let us say you were up 7.5% and had £350m of bike sales. 7.5% on that is £25m-ish. It feels like you move with the market there in terms of repricing to a bit less than the market in terms of the absolute number but that was what most of the mitigation represented.

Jonny Mason: The 7.5% does not apply to the £350m because in that £350m there were a lot of PACs as well and there was no price rises on PACs. The actual benefit from the Cycling price rises was much lower than that.

Andy Wade: The rest coming from sourcing and initiatives and so on?

Jonny Mason: Exactly right, yes.

Andy Wade: Then following that logic through, looking ahead you are talking about getting dollar benefit feeding through in outer years. However, given when dollar went the other way everyone increased their prices do you think there is a possibility that the market lowers prices to reflect the dollar moving the other way and therefore you do not get your full benefit come through?

Jonny Mason: If the FX rate went back to where it was before, like 1.55, that would be a possibility. However, where it is at the moment people do not have the headroom to do that. The FX rate has only gone back far enough to try and recover what was there previously at the elevated price levels that are there now. There is no headroom for prices to go down at these FX levels. They would have to go a lot further before that was a possibility.

Tony Shiret (Whitman Howard): Just to wrap on the cycle stuff, on the actual stock position coming out of the year presumably was a bit ahead of where you expected. It has been a bit sunny so has it gone back into kilter or have we got some sort of overstock in cycles?

Secondly, you have barely said anything about online digital. I wondered if, Graham, you could give us some initial views of that and whether you think it is being run sufficiently aggressively, too aggressively or whatever.

Jonny Mason: You are right that our stock was £4m higher year-on-year and that was largely because we sold fewer bikes in Q4 than we had planned. We have talked about the short-term fluctuations that you do get in cycling demand but there is no cause for alarm there. You have referred to the sun coming out in May. We are not going to talk about current trading but our stocks are in a sensible place given how sales have performed.

Graham Stapleton: Tony, in terms of digital we have mentioned in the presentation, there has been investment in IT and digital. I think the business is in a good place. Like any other business in retail you have to continue to invest to ensure you give customers what they need, be that personalisation or other things. There will always be more investment that any retailer has to make to keep competitive in the digital space and I think Halfords is no different from that.

Tony Shiret: In terms of digital marketing would you say you are passive or would you say that basically that needs to be stepped up if you are going to compete on a five-to-ten year view as a percentage of sales?

Graham Stapleton: From what I can see the business is rightly continually reviewing its mix of spend in the advertising space and looking at how the balance of traditional channels to digital and social works. There is already a lot of work there. I am sure there will be further flex into digital and social. There is no doubt that is what we are seeing everywhere.

Sanjay Vidyarthi (Canaccord Genuity): Graham, you talked about moving from being a market leader to a market-maker. Following on from Andy's question I wanted to understand the shift in nuance there. Is it about pricing? How would you apply that to the bikes market in the year that has just gone or the year ahead in terms of your ability to buck some of the trends in the market?

Graham Stapleton: That is a good question. It is one that we will probably come back to in September because it is a central part of the strategy.

John Stevenson (Peel Hunt): Going back to what you talked about in terms of the investment in cost, you suggested it is going to be more about customer acquisition and building awareness. Is this a more open attack on marketing? Obviously you have not indicated any sort of revenue growth on the back of that so what is the strategy in terms of that investment, that marketing stance and the returns you are expecting to get?

Graham Stapleton: When we talk about investment we talk about services and customer capability. The two things come together as an example in the acquisition space. With a single customer view that Halfords has got and it is a very good single customer view from what I can see benchmarking with others. There is obviously an opportunity to look at your customer base within the business and ensure that the customers are getting the most from the services that you offer from within the Group. Obviously the first step of acquisition will be to look at that. As I said I think when I presented, we will look to do that in quarter four. As a consequence of that you will see very little growth in this financial year.

Matthew McEachran (N+1 Singer): One of my questions is a follow-up on this one on the REVEX investment. You have not quantified the additional amount of investment that you are planning to put in. You have given guidance in relation to the overall year outcome. Could you give us a flavour as to how much you are putting into these initiatives?

Jonny Mason: Yes, we are guiding down today from consensus which was sitting at around £76m by £5m or £6m for the two reasons that we have mentioned of slower recovery of FX and also these investments in services and customer. It is a bit of both. It is roughly half and half.

Matthew McEachran: Going on to the question about stores and your estate, you did generate a little bit of like-for-like store growth during the year and the plan presumably is to continue to do so. However, since you have come into the business have you identified some opportunity to intensify the space because that is really the largest fixed cost part of the business? Is there an opportunity to intensify the use of the space across the UK portfolio or is it more a case of continue with the additional initiatives to try and drive a bit more foot traffic to the existing services and so forth?

Graham Stapleton: There are certainly opportunities, there is no doubt. It will be part of what we will present in September. It is not just opportunities in Retail but it is obviously the channel mix between Retail, Mobile and Garages too.

Matthew McEachran: Are you pointing towards incremental opportunity?

Graham Stapleton: I am just saying that is what we have got to look forward to talking about in September.

Kate Calvert (Investec): Of the £3m of increase in OPEX spending you have indicated this morning obviously some is going on marketing but is any of that going on extra store hours or are you having to pay some of your colleagues more to get the relevant skills?

Jonny Mason: We are not planning increase in pay rates for this purpose. There will be some training, some marketing and some hours.

Graham Stapleton: Thank you very much indeed.

Jonny Mason: Thanks for coming, everybody.

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