

halfords

Interim Results

26 Weeks to 2 October 2009

City Presentation Centre

19 November 2009

halfords

Nick Wharton
Finance Director

Financial Highlights



Strong Delivery Drives Revenue, Earnings and Dividend Growth

- Sales £425.1m +3.8%, like-for-like sales +1.7%
- Gross margin 190 bps increase year-on-year
- Operating profit £62.0m +12.9%
- Profit before tax £60.9m +24.0%
- Basic EPS 20.6 pence +23.4%
- Operating cash flow £112.3m reduces net debt to £106.0m (0.78x EBITDA)
- Interim dividend up 20.0% to 6.00 pence

Sales Growth and Margin %



	FY10 H1 %	FY09 H1 %
Underlying like-for-like sales growth	+1.1	-0.5
Easter adjustment	+0.6	-0.6
Like-for-like sales growth	+1.7	-1.1
Impact of restating currency	+0.4	+0.6
Net new space	+1.7	+2.7
Total sales growth	+3.8	+2.2

	FY10 H1	FY09		
		H1	H2	Full Year
Like-for-like comparatives ^{1,2}	+1.1%	-1.1%	-5.4%	-3.3%
Gross margin percentage	53.3%	51.4%	52.6%	52.1%

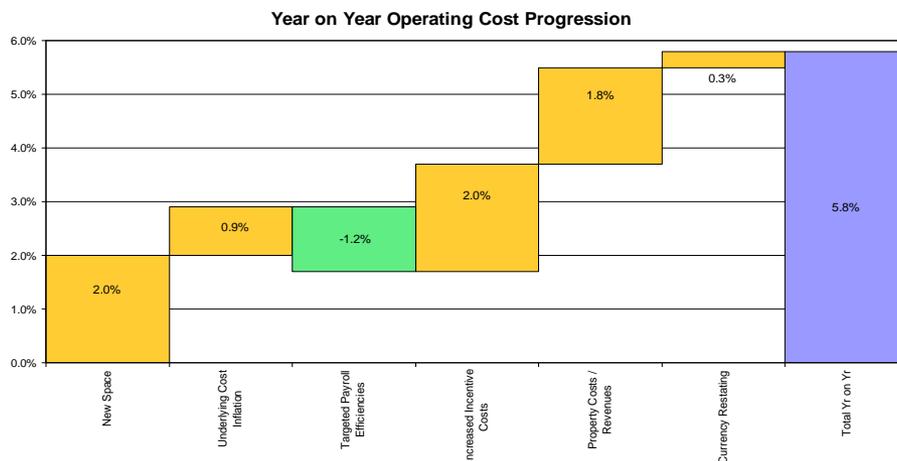
1. Easter adjusted
2. Constant currency basis

Net Operating Expenses



Cost Saving Initiatives On Track, Underlying Cost Growth 0.9%

- Operating efficiencies mitigate underlying cost inflation
- Incentive costs reflect increased year-on-year profitability
- Reduced landlord contributions
- Prudent property provisions



Key Ratios (% Revenue):

Store Payroll (12mth MAT)

Store Rent & Rates

Advertising

	FY10	FY09
	H1	H1
Store Payroll (12mth MAT)	10.5%	11.4%
Store Rent & Rates	11.6%	11.5%
Advertising	2.4%	2.8%

Total Cost Growth Anticipated to Moderate across H2

Profit and Loss Account



	FY10 H1 £m	FY09 H1 £m	Growth %
Revenue	425.1	409.6	+3.8%
Gross profit	226.6	210.5	+7.6%
Net operating expenses	(164.6)	(155.6)	+5.8%
Operating profit	62.0	54.9	+12.9%
<i>Operating profit %</i>	14.6%	13.4%	
Net finance costs	(1.1)	(5.8)	
Profit before tax	60.9	49.1	+24.0%
Basic EPS (pence)	20.6p	16.7p	+23.4%
Weighted average number of shares	209.7m	210.4m	
Actual tax rate	29.2%	28.3%	

Balance Sheet



Step Change in Profitability and Inventory Drives Net Asset Growth

	H1 FY10 £m	H1 FY09 £m	FY ^{53 wks} FY09 £m
Fixed assets	362.4	371.0	367.0
Net working capital	28.0	51.4	64.7
Cash and borrowings	(106.0)	(174.0)	(176.2)
Creditors ¹	(30.5)	(21.4)	(11.1)
Net assets	253.9	226.4	244.4
Inventories	142.6	163.7	147.0
Stock turn	2.42x	2.38x	2.29x

Note 1: Non-trade creditors including tax and derivative financial instruments

Capital Expenditure Summary



Disciplined Capital Investment Centred on Portfolio and Multi-Channel

	FY10 H1	FY09 H1	FY09 FY
	£m	£m	£m
New stores and re-sites	3.0	3.7	7.0
Store conversions and other store	1.3	2.6	3.8
Central Europe (incl. Systems development)	0.1	1.0	2.0
Total portfolio	4.4	7.3	12.8
Multi-channel	0.7	1.5	3.2
HO and store systems	0.6	0.7	2.6
DC infrastructure development	0.8	-	-
Other	0.1	0.3	0.8
Total capital expenditure	6.6	9.8	19.4
Capital creditor movement	(0.8)	2.2	3.3
Total capital expenditure (per cash flow)	5.8	12.0	22.7

Cash Flow and Net Debt – 12mth



Halfords remains strongly cash generative

Operating cash flow		Free cash flow		Net debt ¹	
	£m		£m		£m
Operating profit	98.8	Op. cash flow	154.0	Net debt 27.09.08	(174.0)
Depreciation/Amortisation	25.1	Net finance costs	(10.8)	Free cash flow	115.0
Employee share scheme	2.6	Taxation	(25.1)	Dividends	(33.3)
Asset gains and FV loss	(0.1)			Share Buyback	(0.6)
Working capital	27.6			Share Capital	0.6
		Capex Maintenance	(3.1)	Finance lease	(0.2)
Operating cash flow	154.0	Free cash flow	115.0	Capex Investment	(13.5)
				Net debt 02.10.09	(106.0)

Notes

1. Including Head Office finance lease £12.4m (2008: £12.5m)

Balance Sheet Flexibility



Strong Balance Sheet Provides Capital Flexibility

Debt : Structure & Profile

- £180m term loan, repayment July 2011
- £120m revolving credit facility

Key Debt Metrics:

	Target	FY10 times	FY09 times
● Adjusted net debt ¹ /EBITDAR ¹	>3.9x	3.73	3.80
● Fixed charge cover ²	2.25x – 2.30x	2.38	2.31
● Net debt/EBITDA	-	0.78	1.38

Financial Management

- Policy of interest rate hedging to be re-instated when appropriate
- Underlying capital investment will be targeted to below historic average

Notes: 1. Adjusted Net Debt = Net Debt + Capitalised Rent; EBITDAR = (EBITDA + rent)

2. EBITDAR / (Interest + Operating Lease Expense)

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David Wild
Chief Executive Officer

Agenda



- Half Year Overview
- Delivering Sustainable Earnings Growth
- Strategic Growth Plan
- Outlook
- Summary



Foundation for Sustainable Earnings Growth

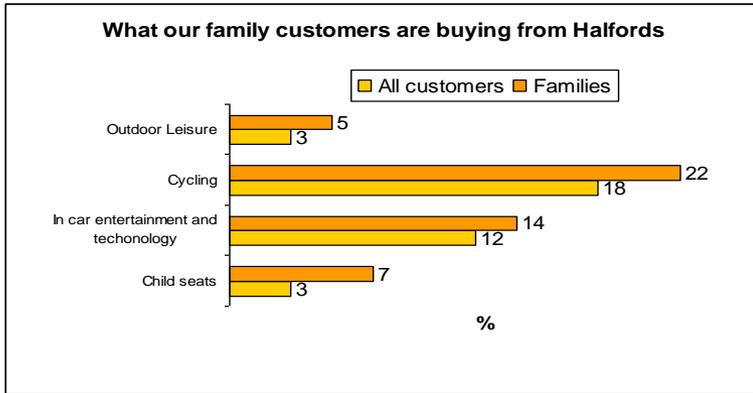
- Strong earnings progression
- Market share growth in core categories
- Increased multi-channel sales participation
- Margin improvement through active trading
- Cost reduction programmes on plan
- Operating cash flow at £112.3m leads to £70m net debt reduction



Broadening Customer Base

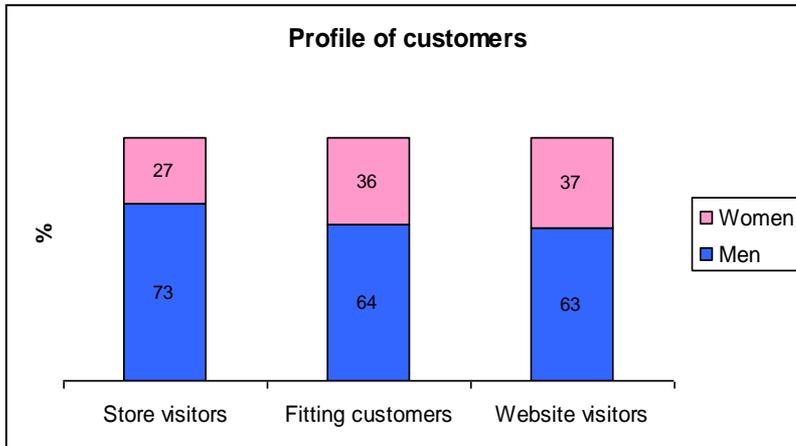
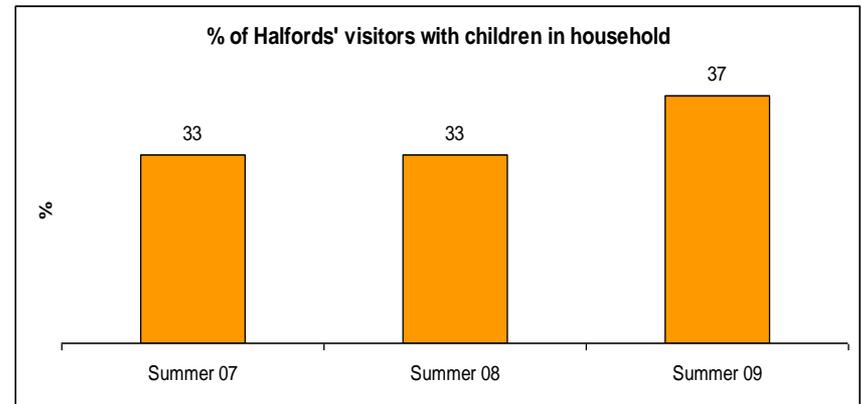
- Customer transactions up 3.2% year-on-year
- Deepening our engagement with existing customers
- Increasing ATV across core categories
- New Ranges attracting more families
- “**wefit**” and halfords.com encouraging more women to shop with us

Half Year Overview



More products that interest families

More families shopping with us



More women using "wefit" and shopping online

Sources:
Store exit survey 08 / 09
Website: on line survey: November 2009

Half Year Overview



International Markets

Republic of Ireland

- Macro economic position slow to recover
- LFL: -18%
- Q2 sales recovery driven by Halfords initiatives
- Mixed category performances:
 - ◆ Child Travel +15%
 - ◆ Cycles +9%
 - ◆ In-car technology - 46%
- Successful launch of Reserve and Collect
- Tight cost control
- One new store opened
- Euro appreciation protects earnings



Half Year Overview



International Markets

Central Europe

- Czech and Polish economies still challenging
- LFL: -12%
- Variable LFL category performance:
 - ◆ Cycling +20%
 - ◆ Car maintenance consumables +14%
 - ◆ In-car technology - 52%
- Seasonal campaigns and space allocation
- Tight cost control
- FY10 trading losses in line with FY09



International Markets Remain Challenging; Attractive Long-Term

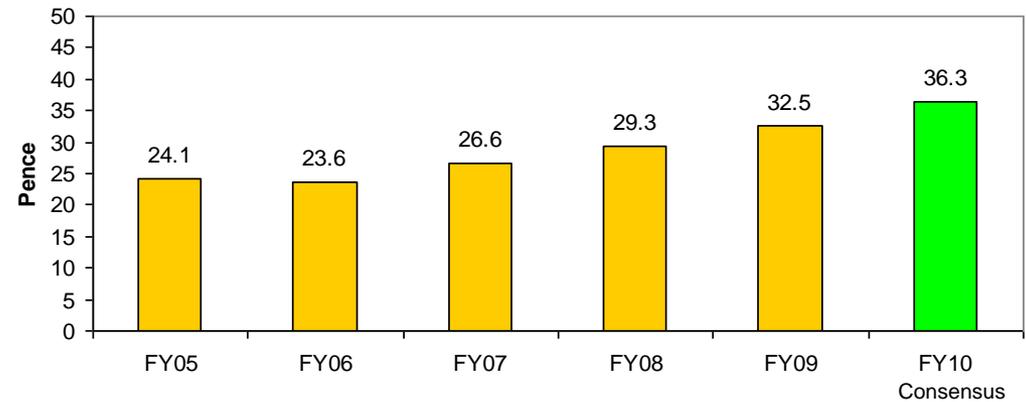
Sustainable Earnings Growth



Post IPO Earnings Growth 34.9%, 7.8% CAGR

- Historic performance
- Attractive markets
- Advantaged business model
- Broadening customer base
- Long-term international opportunity

Earnings Per Share Growth



Note:1. Earnings per share before exceptional items

Opportunity Exists for Sustainable Earnings Growth

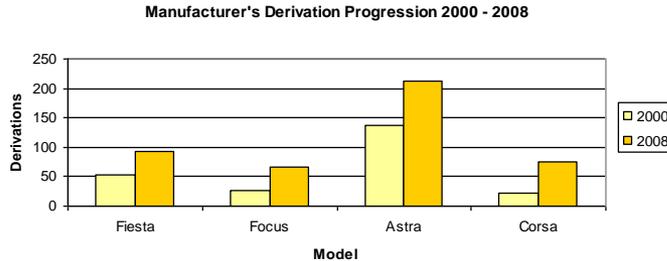
Sustainable Earnings Growth



Halfords Markets Provide Long-Term Growth Potential

Automotive

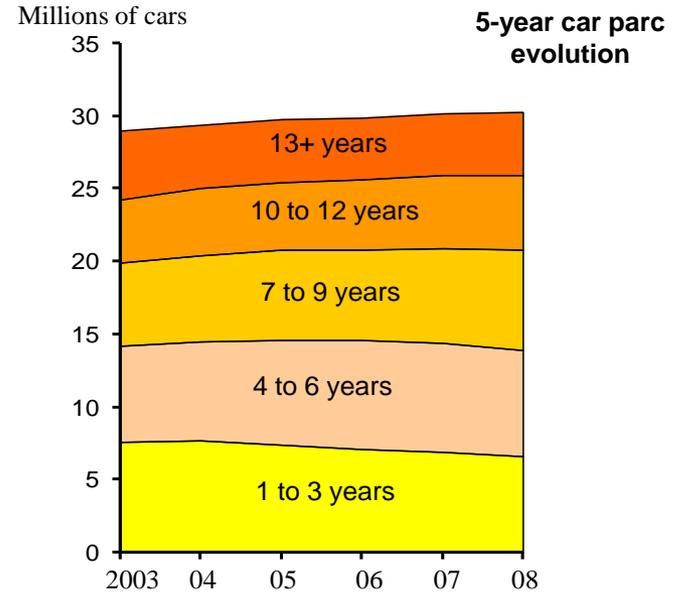
- Expanding and ageing car parc
- Vehicle manufacturers innovation



- In-car technological developments

Cycling and Outdoor Leisure

- Health association
- Family leisure
- Sustainability
- Economy



Sustainable Earnings Growth



Unique Business Model is Advantaged in its Core Markets

- Unrivalled scale and national coverage
- Market leading range, innovation and stock availability
- Differentiated service proposition
- Natural consolidator of fragmented markets
- Strong brand provides foundation for continued new product development



Our Strategy Remains Consistent and on Plan

- Investing in the Store Portfolio
- Ongoing focus on cost control
- Extending range and service advantage
- Leveraging the Halfords brand in multi-channel

Investing in the Store Portfolio



UK and RoI

New Stores

- 7 stores opened in H1, shortage of quality retail development
- 50-60 remaining opportunities

Existing Stores

- Ongoing space rebalance programme
- Releasing space for new initiatives
- Improving space intensity
- Updated layout and graphics

Central Europe

- Reduced footprint on new openings
- Lower capital expenditure, operating costs and working capital
- Prudent expansion



Ongoing Cost Control



Ongoing Programme to Reduce Operating Costs

● Cost of Goods

- ◆ Own label opportunities
- ◆ Agile sourcing model
- ◆ Specification advantage



● Operating Costs

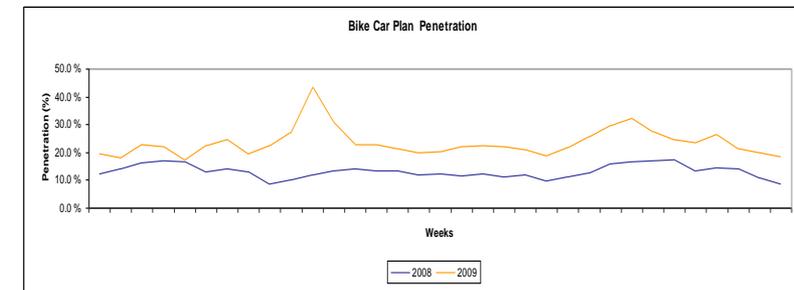
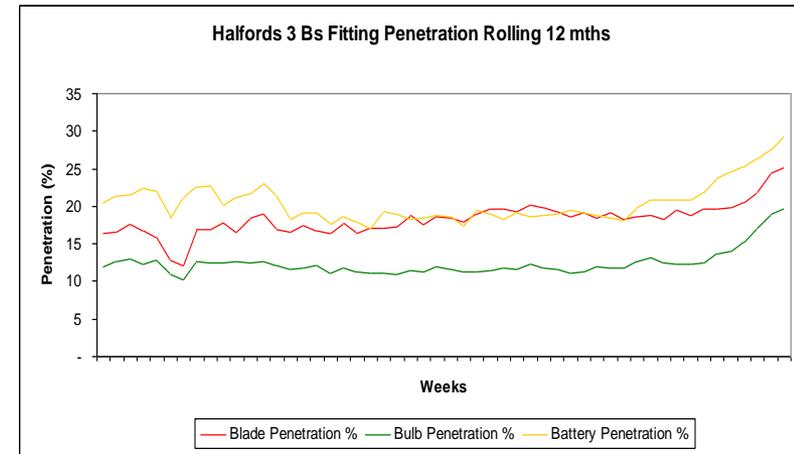
- ◆ Supply Chain
 - Lease signed on National Distribution Centre
 - £4m pa saving from mid – FY11
- ◆ Payroll
 - Significant productivity improvements in FY10
 - Further £2m savings targeted for FY11
- ◆ Property
 - Rental settlements easing
 - Lease expiry opportunity

Service Advantage



Halfords Service Proposition Achieves Multiple Objectives:

- Grows sales and builds loyalty
- Defends market position
- Highly economic
- Continued penetration improvement
- Accessibility and convenience
- Increases transaction value

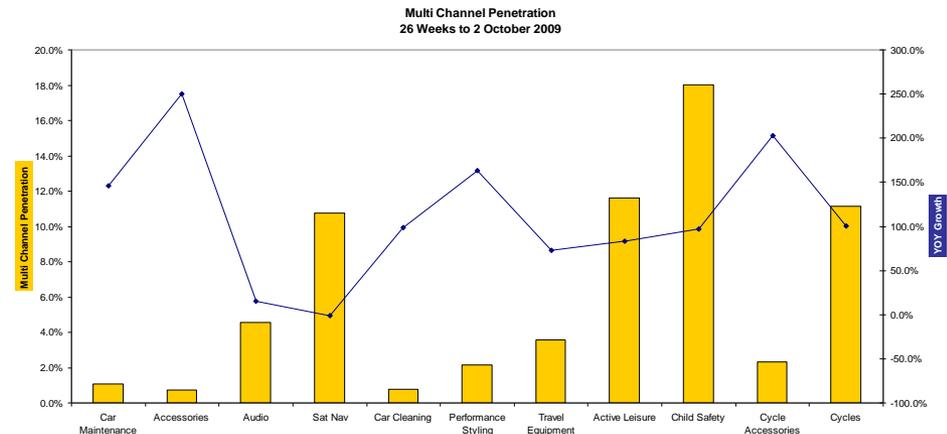
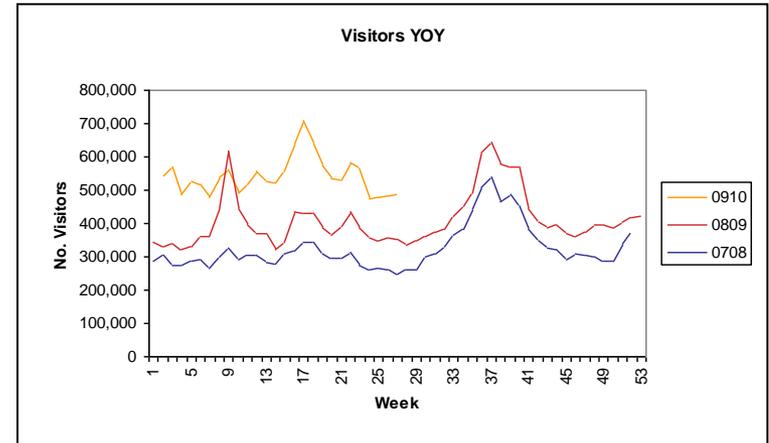


Multi Channel Development



Current

- Multi channel sales +54% YOY growth, 5% of total revenue
- Significantly lower than industry benchmarks
- 80% of transactions involve store visit
- Opportunity to increase transaction value
- Variable category performance



Multi Channel Development



Internal ambition to double participation

Opportunity

Range

- Wider range in all key areas with low inventory risk
- Order and Collect extends assortment in Jan 2010



Marketing

- Drive to increase conversion further
- Marketing spend increased by 80%
- Ratings and reviews increasing significantly
- Direct email targeted to customers
- Technology used to re-engage lost customers





- Sales growth in Q3 to date in-line with internal expectations
- Gross Margin trending in line with guidance
- Ongoing Cost Control
- Cautious regarding economic backdrop in early 2010
- Full year Operating Profits in-line with market expectation

2010 Uncertain consumer environment, but Halfords well positioned



Foundation for long-term sustainable earnings growth

- Good first half performance providing foundation for the full year and beyond
- Cost saving programmes on track
- Multi channel development continues to expand and deliver profitable sales
- Ongoing acceptance and take up of the service proposition
- Broadening customer base
- Markets and strategy provides basis for delivering sustainable growth



Appendices

1. H1 Cash Flow
2. Portfolio by Store Type
3. Portfolio by Location
4. Tottenham Store Visit

Cash Flow and Net Debt – H1



Operating cash flow		Free cash flow		Net debt ¹	
	£m		£m		£m
Operating profit	62.0	Op. cash flow	112.3	Net debt 03.04.09	(176.2)
Depreciation/Amortisation	11.5	Net finance costs	(1.4)	Free cash flow	96.6
Employee share scheme	1.6	Taxation	(12.5)	Dividends	(22.8)
Asset gains and FV loss	0.5			Share Capital	0.6
Working capital	36.7	Capex ² Maintenance	(1.8)	Finance lease	(0.2)
				Capex ² Investment	(4.0)
Operating cash flow	112.3	Free cash flow	96.6	Net debt 02.10.09	(106.0)

Notes

1. Including Head Office finance lease £12.4m (2008: £12.5m)
2. Capex spend £6.6m includes £0.8 capital accrual movement

Portfolio By Store Type



Retail Space 3,904,624 ft ²	Mezzanine	Flat	Compact	Metro	Bikehut	Total
	S/M/M	F	C	Me	BH	
Opening Number	239	162	29	28	8	466
New Store	0	2	4	0	0	6
Relocations	1	(1)	0	0	0	0
Closures	0	0	0	(2)	(1)	(3)
Conversions	0	0	0	5	(5)	0
Closing Number	240	163	33	31	2	469

09/10 store rollout	Q1	Q2
New stores (7) (R) Relocation	Inverurie (C)	Cromer (C) Cookstown (C) Corby (C) Swords Rol (F) Coventry (F) St Helens (SM)(R)

Portfolio by Type and Location



	UK	RoI	Poland	CZ	Total
Superstore	376	21	1	5	403
<i>Mezzanine</i>	227	12	0	1	240
<i>Flat</i>	149	9	1	4	163
Neighbourhood	31	2	0	0	33
Metro	31	0	0	0	31
Bikehut	2	0	0	0	2
Total	440	23	1	5	469

	UK	RoI	Poland	CZ	Total
Opening Number	438	22	1	5	466
New stores	6	1	0	0	7
Closed stores	(4)	0	0	0	(4)
Closing Number	440	23	1	5	469



HALFORDS GROUP PLC

INVESTOR STORE VISIT – 8th OCTOBER 2009

**Halfords
Unit 6
Broadground Lane
Tottenham
N15 4QD**

Strategic Growth Plan



Core UK business provides continued growth opportunities

- Extending range and service advantage
- Investing in the Store Portfolio
- Ongoing focus on cost control
- Leveraging the Halfords brand in multi-channel



To illustrate the growth potential for Halfords core UK category proposition

- Introduction
- Automotive
- Leisure
- Colleague Management
- Summary
- Open Session

Car Maintenance



- Long term attractive market
 - ◆ Increasing car parc
 - ◆ Ageing car parc positive for demand
 - ◆ Manufacturer innovation
- Attractive economic model
 - ◆ Above average gross margins
 - ◆ Range innovation drives ATV
 - ◆ Range now actively marketed
- Market leader through range authority, availability & fitting capability
- Market consolidation continues in substantial market (c.£1Bn)



Car Enhancement



- Wide ranging category from resilient car cleaning staples to accessories & technology
- Market drivers
 - ◆ Cleaning & accessories mirror car parc
 - ◆ On-going innovation drives technology market
- Advantaged proposition
 - ◆ Strong own brand
 - ◆ Scale & flexible sourcing
 - ◆ Range breadth and exclusivity
 - ◆ Set up & demo / Technology fitting
- Accessorisation expanding technology margins



Cycles



- Long term attractive market
 - ◆ Health/leisure
 - ◆ Sustainability
 - ◆ Economy/commuting
- Market leadership with further opportunities
- Significantly advantaged proposition
 - ◆ Own brand led assortment
 - ◆ In-store service
 - ◆ Comprehensive accessory range & increasing attachment rates
 - ◆ Scale & agile sourcing
 - ◆ Halfords.com
- Bike Care plan growing
- Independent bike distributor consolidation



Premium Cycle Opportunity



- Boardman fastest growing premium bike brand
 - ◆ 'Best in Class' Awards
 - ◆ Long term exclusive arrangement
 - ◆ Leverages supply chain capability to offer great value
 - ◆ Volume 3 x 2008 levels, 5 times Halfords average ATV
 - ◆ Trained colleagues
- Leverage Boardman to widen premium offer
 - ◆ Accessory assortment widened in-store
 - ◆ Enhanced service model
 - ◆ 2000 additional accessories on web
- Further opportunities in sub-categories, via store specific ranging
 - ◆ Town & Trail
 - ◆ Folding bikes
 - ◆ Hybrid performance
- Cycle2Work leadership



Travel Solutions / Camping



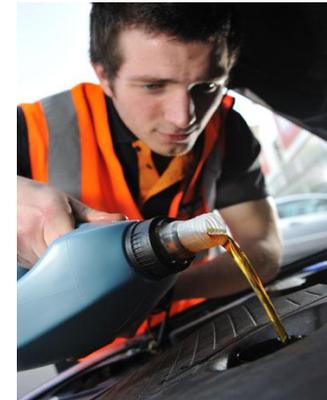
- Market dynamics underpinned by growth in domestic holidays
- Market leadership in established auto related categories
 - ◆ Roof boxes, bars and cycle carriers
 - ◆ Pets on the Move, Safety & Continental Motoring
- Increasingly diversified into camping
 - ◆ Sub-shop environment improves conversion and drives basket size
 - ◆ Opportunity to extend equipment range
 - ◆ Urban Escape premium brand established
 - ◆ Fragmented competition
- Child Seats now a core category
 - ◆ Market leadership apart from first-born
 - ◆ UK birth rate increasing
 - ◆ ROSPA fitting accreditation enhances credibility
 - ◆ Range opportunities on line and in-store



Labour Productivity Management



- Objectives
 - ◆ Optimise colleague & skill allocation across store/week
 - ◆ Deliver payback on eVolve systems investment
 - ◆ Offset inflationary pressures
 - ◆ Increase fitting resource & availability
- Progress – Financial Year 09
 - ◆ Develop core rotas
 - ◆ Gap identification process
 - ◆ Formal consultation (1,000 colleagues)
 - ◆ Up-weight service & selling skills training
- Delivery – Financial Year 10
 - ◆ Targeted savings banked
 - ◆ Fitting penetration increased (FY09 +20%, Q1 FY10 +25%)
 - ◆ Ongoing opportunity to leverage productivity





Unique offer and differentiated service proposition

- Natural destination for Automotive & Leisure products
- Core categories provide growth opportunities, in-store and via halfords.com
- Broad competitive set with Halfords delivering market leading package
- Consolidation opportunity in fragmented markets characterised by weak independents

Appendix – Tottenham Store



Tottenham Store is representative of the Halfords estate

Physical

- Opened 8 December 2000
- Square mezzanine store (c. 100 in chain)
- Retail space (sq ft) - ground 8,639, mezzanine 2,703 (Rental space – 12,000)
- Low cost refresh 2007 (£30k investment)

Financial

- Turnover ranking – 38
- Fitting penetration +27% yr on yr (growth rate c.250th in company)
- Bike Care Plan Penetration +87% yr on yr (c. 200th)
- Technology accessory attachment ratio + 125% yr on yr (c. 225th)

Operational

- C. 50% of colleagues impacted by rota review (11 of 25)
- Rotas aligned to weekend increasing weekend allocation by 7%
- Fixed labour element reduced by c. £45,000, c. 8% of store base
- Underlying labour investment reduced by c. 4%