**Halfords**

**Dennis Millard**
**Andrew Findlay**
**Paul McClenaghan**

**Dennis Millard** - Good morning everybody and welcome on this very drab, November day but cheer up Christmas is upon us soon. I am delighted to be presenting Halfords interim results for the first, and for the last time, thereafter the role of leading the peloton will be passed onto our new Chief Executive, Matt Davies who is with us today. However, as Matt has only been in the business for a few weeks he will not participate in the presentation or the Q&A session today. Andrew Findlay will present the financials and I will provide an update on some of our strategic initiatives. Andrew, Paul McClenaghan, our Commercial Director, and I will then field your questions but firstly an overview.

After a difficult first quarter for our retail business, we took full advantage of the summer of sport and the improved weather, with our proactive trading stance, this saw group sales recover strongly in the second quarter and were up by 0.4% for the first half, retail growth margins held up well and were in line with guidance.

Our Autocentres continue to grow strongly with sales up 17% year on year, as we continue to invest in reach and capability. Our profits were at the top end of the range for the first half, cash flow was robust and we generated £60 million of free cash flow in the first half and have a sound financial position and we will pay an unchanged dividend as previously indicated of 8p. We made some significant progress with a number of strategic initiatives but more about that later, and lastly we've held our profit guidance for the year. I will now hand over to Andrew who will take you through the numbers.

**Andrew Findlay** – Thank you Dennis. Good morning everybody. I'm going to take you through the financial highlights of what was a more encouraging period for Halfords. Group revenues of 456 million, were up 0.4%, retail gross margin was 52.5% down as expected by 19 basis points. Profit before tax at £41.9 million, a decline of 23.4% reflected the opex inflationary pressures we were facing this year as well as the strategic investments we laid out in April as we invest for future growth. Basic EPS of 16.2p down 18.2% reflected the decline in profit before tax that was partly off set by lower tax charge at an effective rate of 25.4%.

A focus on retail inventories together with the surge in retail demand in the second quarter meant an unusually large 13.3% year on year reduction in group stocks with the Autocentres stock position flat versus the prior period at £1.3 million. This together with lower capital expenditure in the period contributed to a £32.8 million reduction in group net debt over the last 12 months to 107.9 million. This is despite over £57 million of cash being distributed to shareholders via dividends and share buy backs over the same period. Given the cash flow performance and the ability of this business to continue to generate significant amounts of cash, the interim dividend has again been maintained at 8 pence per share underpinning our track record of delivery to share holders.

Turning to retail, the table illustrates the mixed performance in the first half, with weather conditions hampering sales in Q1 whilst Q2 reflects our ability to capitalise on the one off benefits, such as the Olympics, particularly within cycling. Some categories that wouldn't directly benefit from the Olympics also did well, for example car maintenance sales growth accelerated in the first half as we started to capture the parts and labour opportunity in bulbs, blades and batteries, car maintenance fitting is important to us and our fitting offer led to a material increase in demand for our car maintenance parts during the period.

Car enhancement like for like sales decreased by 6% in that first half, reflecting both the cyclical and structural pressures across much of this category which now represents only around a quarter of our total retail sales. At 6% this was a slower rate of decline than in previous periods, second quarter market share gains in Sat Nav were complimented with a 12 month 9% rise in car audio share where we now occupy over 60% of the market.

Travel solution sales were disappointing, better weather in August arrived too late to off set the first half decline in camping and touring. Our child travel and safety sales were also down throughout the half reflecting our strategy of managing these products for cash with selective competitive pricing and supported promotions as appropriate. We were encouraged not only by our product category performance but also our channel performance, with our retail online team delivering strong revenue growth in both Q1 and Q2, where sales were up by 13% and 30% respectively. Importantly over 88% of online sales during that half were generated via reserve and collect and picked up in our stores.

With a modest decline in retail revenues the gross margin decline by 19 basis points, I'll go through marginal influences in a moment but this robust performance was despite the stronger sales in the slightly lower margin cycling category as well as higher than expected sales in car enhancement. Costs at £164.3 million were up by 5.3% reflecting our strategic investments as well as the underlying inflationary pressures we described at the beginning of the year.

You'll understand the areas of strong revenue growth could have a margin diluted impact despite being cash generative. This is what we saw from cycling. Given the cycling category gross margin is slightly below the total retail average and with Q2 cycling sales as strong as they were, this naturally led to an adverse mix impact. Within cycling lower margin premium bikes did particularly well as we target the attractive and growing sport and fitness and travel and commuter segments. Our cash acridities promotional activity continued with particular success from our market leading cash for magnatec offer. Within cycling we continue to leverage our 3 for 2 deal on accessories and we also better leveraged our promotional stance with audio and Sat Nav providing market leading price points supported by close supplier relationships.

There were areas impacted by the adverse weather conditions in much of the period and apart from camping and touring, this included higher margin in car cleaning and body repair, although car cleaning saw significantly improved performance in Q2, like camping and touring it wasn't enough to off set the first quarter weather impact.

Moving on to the factors that benefited margin percentage, clearly the material up lift in the car maintenance parts and fitting had a positive mix impact as did the decline in the lower margin car enhancement revenues. However we also continue to take advantage of our unique scale in areas such as the far east, sourcing and securing areas of deflationary cost opportunity such as the lead in batteries and better shipping rates where we could. Just to be clear, although gross immediate margin percentages are important, our key focus is always on maximising cash returns.

Now turning to the break down of retail opex which reflects a combination of inflation and investment with in-store staffing. To ensure we were ready to deliver on our car maintenance fitting opportunity we invested more in payroll hours in 3B's fitting. Enhanced by this was the recruitment of over 450 new fitters in store slightly earlier than we had first planned. We also invested in payroll hours, in training, in both technical and customer engagement skills and this together with our national minimum wage increase resulted in a 6.8% increase in overall store staffing costs. Store occupancy costs fell by 1% reflecting our focus on mitigating rent and rate increases as well as procured savings in areas such as refuse management.

Warehouse and distribution costs increased by 4.4% primarily driven by the carriage costs associated with the successful 24 hour online fulfilment offering launched in March. Finally support costs increased by 17.9% as we invested in training programmes, particularly Folkestone, our store colleagues, the recruitment of extra fitters and structural capability in our support centre operation, as well as accelerated investment in AnP.

Examples of this would be investments we've made in our online team, to continue our focus on multichannel delivery, expansion of our HR capability to better deliver future training programmes, as well as hiring of specific personnel to execute on the cycling parts, accessories and clothing opportunity next year. In AnP we've invested in national TV advertising for the first time for the car maintenance fitting offer, we also accrued for the full cost associated with David Walsh's departure from the business and the cost associated with recruitment of a new Chief Executive Officer.

Retail inventories were markedly down in the first half, down by 13.4% on the prior year, this is not a percentage movement we anticipate to achieve over the full year. The closing stock number of £131.6 million reflects a number of actions, firstly we closely managed our buyer to reflect our cautious planning and targeted areas of prior year over-stocks. We took steps to improve our processes for a range change and stock exits and we also took an action to clear very slow moving and obsolete lines and this is something we'll continue to do for the remainder of this financial year.

Given the Q2 cycling demand that was even higher than we originally anticipated we also ended the period with some areas of sub-optimal levels of stock, primarily within premium bikes. This now provides us with an opportunity to re-invest and focus on those areas of inventory we know we sell well, so in the second half of the year we intend to rebuild our bike stocks to more normalised levels, needless to say we are in great shape for Christmas and winter particularly in kids cycling with new ranges recently launched in accessories, bikes and scooters.

So now moving away from retail and onto Autocentres.  Sales were up by over 17% a strong result in a period where motorists continue to face significant cost pressures, we opened a further 5 centres in the half to take the centres estate to 265 and since the end of September, we've opened a further 4 as we target to open up to 30 new centres this financial year.  The centre pipeline is strong for both this year and next, though we retained a balanced approach by only opening centres where it makes sense and for the right level of expected return. Like for like revenue growth of nearly 11% reflected retail like for likes of over 16% with the lowest single digit decline in fleet.  This demonstrates the particular success of our marketing strategy with our retail customers, within fleet although we haven't lost a fleet customer since acquisition, the performance illustrates the continuing challenges within the fleet market as customers reduce and refresh their fleet car parts.  In response we have recruited a new business development director in the first half whose recently renewed and extended the fleet team and is focused on winning new business in a number of new segments such as local authorities.

The gross margin in Autocentres has climbed by 260 basis points to 63.9% this reflects our growing participation in the lower margin tyre market, during the second quarter tyres represented around 16% of Autocentres revenues approaching our aim of achieving the market average of around 18%. Importantly the margin in the core business that focuses on service, MOT and repair performed very well enhanced by improved buying on parts.  Operating costs increased by almost 13% reflecting our continued investment in the business, the 224 centres acquired in 2010 attracted a 4% increase with the new centre opening programme adding a further £2.6 million of operating costs, as we build the network far beyond it's original size.  Its worth remembering that these new centres are not expected to reach accumulative break even until their third year of operation.

We also remain focused on selective investment and capability and support covering the entire network.  Brand awareness advertising on TV and radio continue during the period, as did the augmentation of our central support and regional structures, despite the growth margin pressures and the increased in opex we planned for our top line performers helped to deliver double digit increase in operating profits of £3.3 million in the first half.

Halfords continues to prudently invest in capital where appropriate, within retail £2.3 million was invested in stores including relocation and right size activity and an element in investment in our laboratory store concepts.  Additional investment in retail infrastructure included a £1.2 million investment in IT systems, reflecting the further developments of the online proposition and £1 million of capex was allocated to W and D principally focused in the refresh of our delivery fleet.
£1.5 million of capex in Autocentres was in line with the prior period and reflected the opening of 5 new centres, development of sites yet to be opened plus investment in the tyre proposition in all centres to support our tyre aspiration.

As I said earlier Halfords generates a significant amount of cash and with cash profit being the focus of our execution we delivered around £60 million of free cash in the first half.  Alongside the unusually low level of retail inventories driving a benefit in working capital the phasing of capital expenditure helped to reduce the net debt in the half to around £108 million, despite the profit decline, the net debt to 12 months EDA ratio remained what 1 times cover, a number I'm comfortable with, it's a robust balance sheet position particularly when you add the fact that Halfords have no pension liability.

Lastly, I now turn to the 4 year guidance and planning assumptions we laid out earlier this year.  We continue to remain cautious over the retail sales performance for the balance for the year, as we have read and seen the consumer confidence numbers aren't getting any better and as you may know, we are up against strong cycling sales in Q3 last year so our caution is appropriate. I am retaining the 4 year guidance and retail opex and we remain committed to reinstating a bonus for our store and support centre colleagues where no bonus was paid in FY12. However there is clearly management flexibility in this and as I said in May, payment will be dependant on financial performance and our strategic progress. The £6 million of investment in strategic initiatives has been ring-fenced and we continue to focus on the reduction of cost in non-value add areas. I am also not changing my 4 year guidance on retail gross margin, capex, interest or tax.

For Autocentres I've mentioned that fleet market is particularly challenging and given this and our decision to continue to invest in the business the four year Autocentre operating profit is now anticipated to be in line with last year. These planning assumptions for the balance of year end mean we continue to anticipate an FY13 profit before tax figure of £66 to £70 million in line with prevailing market expectations. With that I thank you for listening and I hand you back over Dennis.

**Dennis** – Thank you Andrew. In May this year when we presented our preliminary results we also provided an analysis of our markets, our position in these and the opportunities and challenges we faced. This in turn provided the background and rationale for the vision and strategy we set out then for Halfords. Today I'd like to give you an update on the progress we have made in the last 6 months with a number of key initiatives that underpin that strategy. Fundamentally our strategy is built on our vision to help and inspire our customers with their life on the move, our strategy consists of 3 pillars where we believe we have strong competitive positions, compelling customer propositions and opportunities for growth. They are to be the friend of the motorist, to be the best cycle shop in town and to be the starting point for great getaways. We also identified the key commercial enablers that would underpin the delivery of each of these pillars.

You may recall we also set out some of the significant growth opportunities we have within our key market segments, the first is in retail where we are building on the DIY to DIFM, the “Do It For Me” trend for the replacement of the 3B’s, that’s bulbs, blades and batteries with our “we fit” proposition.  Overall we estimate this to be a £1 million market of which we currently only have an 11% share, the competition is in the garage trade and dealerships which are more expensive and do not, and in some cases can not, offer the on demand service to customers that we do, the prize therefore is significant.

Our Autocentre business operates in the £8 to £10 billion automotive after care market in which we only have a 1 % share.  Competition in this area is again dealerships, they tend to be significantly more expensive than Halfords or the thousands of independent garages who can not offer the warranty and the back up that we can and their numbers are declining, clearly another opportunity for growth.

In cycling as you know we have put a lot of effort into developing our product ranges and made significant progress in recent years, not least with the Boardman and Pendelton brands but also our own brands like Carrera and Apollo.  We are now addressing 2 other areas of significant opportunity in cycling where we recognise we need to improve our offer if we are to lay claim to being the best cycle shop in town and that is the £85 million market for cycle repairs, and that £600 million plus market for parts, accessories and clothing in other words the PAC’s  market.  Relative to our market share for cycles, where we sell over 1 million bikes a year, Halfords under punches its weight in both the PAC’s market, particularly online, and in the repairs, it is our aim to address this.

I’d now like to share with you progress we’ve made in the last 6 months with these and other opportunities and where there are other initiatives. And firstly the friend of the motorist which in this case will encompass both our Autocentre and our retail business, but starting first with the retail business. In retail we deployed our resources on our “we fit” proposition in the first half, we extended our 3B’s range and added the latest technological innovations to give greater coverage, now 90% of all cars on the road in the UK.

We invested in the recruitment of 450 new in-store specialist fitting colleagues and retrained over 6,000 existing colleagues significantly increasing capacity and capability and we launched a national TV and radio advertising campaign and up-weighted our in-store promotions, the results so far have been heartening, during September our fitting levels, that is the number of 3B parts we sold that we fitted, rose from 23% a year ago to 31%. Importantly the number of 3B parts we sold also increased, helping to drive up part sales by 6.3% in the first half. This demonstrates to us both the progress we are making with this unique proposition and the power of Halfords to deliver when focused laser like on opportunities.

In automotives we continued to invest in the significant long term growth opportunity, we see this business by extending our network to 265 centres with 4 more already in the second half, by trialling Sunday openings at 30 existing centres and then our new centres. Research shows that there’s a strong demand for this service for our customers that find it difficult to have their car serviced and repaired during the working week. We also made further investments in our tyre fitting capability that’s resulted in a 69% growth in the half with tyres now making up nearly 50% of the total of Autocentre sales.

As Andrew said we recruited a Business Development team to, to increasingly leverage our fleet opportunities and we trialled a new e-diary booking system in a number of centres. We are pleased with the progress of our Autocentre business this is the 6th quarter in a row where we have achieved like for like growth with 11% achieved in the first half. Looking ahead to the second half, on the friends of the motorist, we will continue to drive 3B awareness both in store and through TV and radio advertising as we move into the important winter months when more difficult driving conditions prevail and demand for these products and services increase. We plan to add up to 25 new Autocentres and build a strong pipeline for FY14, this will take the network up to 290 centres and on course for our longer term aim of doubling the reach of our current national network. We will re-platform our Autocentres website and launch the e-diary booking system nationally.

Moving now to our initiatives in the next bit of our strategy and that's the best cycle shop in town. And firstly dealing with cycles, in the first half we launched the significant number of new products right across the range, our Pendelton range of women's bike went on sale in March, designed by Olympic gold medallist and strictly come dancing survivor Victoria Pendelton. Long may she survive on strictly come dancing. That brand however has since become Britain's fastest growing bike brand, at the top of the range, high end performance cycle brands Cinelli And Tifosi were also added online extending Halfords bike range up to £3,400. We launched the Carrera Virago a sub £1,000 carbon fibre frame road bike. A new range of 23 kids Apollo character bikes and accessories as well as an extended range of children's scooters were introduced ready for the Christmas market.

Further investment in training and resources also resulted in first half cycle repair revenues growing by over 36%, collectively these initiatives, the boost from the summer of sport and our market leading presence saw our cycle sales grow strongly. The success of our exclusive Boardman range was boosted by Chris Boardman's prominent TV commentaries and the Brownlee brothers capturing gold and bronze in the triathlon powered, in that case, by a Boardman bike.

And in the second half we have further exciting developments, a new Pendelton range is planned for the 2013 season, in December we will launch 3 new Boardman bikes at the key cycle to work sub £500 price point, a new turbo trainer range will be introduced to capture the trend for road bikers to train indoors, particularly during weather like today, a new range of BMX radio brand bikes will be launched, there will be other new additions to the Boardman and Voodoo ranges and we will be trialling a new upgraded cycle repair process and capability to drive further revenue growth. Our intent is clear - to stay at the forefront of cycling innovation.

As I stated earlier we have in the past under punched our weight in cycling parts and accessories and clothing. To begin to address this in the first half we recruited a new commercial team to aggressively drive this category, we secured trading arrangements with 170 leading brands including Sram and the iconic Adidas brand. We began to upgrade our IT infrastructure and our website in preparation for trading the extended PAC'S range and to offer a contemporary returns process. And looking ahead into the second half we will continue preparation for the launch in the first half of FY14 of our extended PAC'S range, by increasing our PAC'S capability of 1,700 to 13,000 SKU's, by extending our clothing range from 200 to 4,000 lines and cycle parts from 750 to 6,000 lines. We will also increase the number of premium brands. Our initial focus will be on capturing sales online and then rolling out the more popular lines to our stores thereafter. All and all this is a major and exciting initiative and we see it as a significant opportunity for Halfords.

Moving now to the third pillar of our strategy, great getaways. As part of our great getaways strategy we ran an initiative and widely acclaimed brand campaign – the best trips last a lifetime, which highlighted that Halfords, through its motor, cycling and camping products, has been a part of the nations holiday memories of many years. In the first half, frankly the abiding memory was the awful weather, particularly in the first quarter and getting away took on a completely new dimension.

Nevertheless our “we fit” offer saw roof bar fitting sales increase 5% in the first, first half and our in car technology sales out performed the market significantly. In the second half we are planning extended camping and tent offer which will include the launch of a new private label camping brand – Aventura to compliment our urban escape range. We will add another, other leading camping brands like Vango, Outwell, Coleman and Gelert at least. We will also continue to invest in our Exodus travel equipment range and increase our range of DAB radios and up skill our IMI accredited DAB radio fitters. The great getaways area is an area in which over the months ahead we will seek to strengthen our position and broaden our offer with household brands in innovative services.

Turning now to the initiatives in those areas that will underpin each one of these strategies and that’s what we call our enablers. And firstly our web and IT infrastructure where we have re-organised and bolstered the web team following a recruitment of our first Digital Director, we’ve launched a new 24 hour reserve and collect service allowing customers to select from an extended range and take delivery at their local store the next day. This further highlights the true, multi channel or omni channel nature of our offer with nearly 90% of online orders now collected in store. A new dynamic email programme was launched and our presence on facebook and twitter grew strongly as did our mobile, as we further developed our digital marketing and our CRM capability. A project to replace the Halfords online search engine will be implemented to improve customer interaction and conversion. This is obviously a fast growing part of our offer and we saw retail online sales increasing by 21% in the first half to 10.5% of the total. We will continue to make swift, bold and contemporary investments to reach out and grow our customer base significantly through this channel.

Moving to our portfolio now and particularly our new format experiments, there has been much comment by analysts on the future of the high street, the relevance and role of stores in a multichannel world and the need to provide customers with theatre and with service beyond product to enhance their in-store experience.

We launched our laboratory store project this year with that at the forefront of our thinking, we now have 5 laboratory stores with further openings planned in the second half, we are learning the trading merchandising and staffing concepts through various formats, though all remain experimental at this stage, the current formats differ between each as we test the right space allocations, SKU's customer interaction and category locations.  We will continue with the experiments in the second half and test their relevance to and relevance with the important Winter and Christmas trading periods.  We have not placed a time constraint nor any other inhibition on this important project, we will do what is right when it is right.

Now when I provided our Q2 trading update I openly admitted that we needed to raise our game with our customer service as our performance has slipped over the last 2 years.  Our number one priority is to build a company wide dedicated service ethic for which we'll be proud and invest in training and support in our colleagues, we recognise this is not an overnight project, it is however central to all of our initiatives,  For starters in the first half, the Redditch Head Office was renamed the Support Centre to reflect it's primary role of helping our store and our centre colleagues better serve customers.  A new customer engagement training programme was rolled out to nearly 9,000 colleagues, we trialled the introduction of the new Customer Service Manager in our top 25 retail stores and this was supplemented by a new till receipt system to more readily capture customer feedback and we listened.  Importantly we are seeking to redefine our retail in-store customer service proposition, we are in the process of fundamentally reviewing store rotas, store hours and training needs to give our store colleagues the support and the tools that they need to best serve customers.  And with regard to our colleagues, in the first half we've conducted a colleague engagement survey, the first for several years which received a staggering response of 92% across the Halfords 12,000 strong workforce, this provided over 8,000 qualitative individual comments and some very telling insights.

We plan to open 3 regional training centres in January 2013, with a view to 12 more opening next year.  We are also introducing NVQs to give store colleagues nationally recognised qualifications in fitting and service and further investment was also made in our Autocentres apprenticeship scheme, the largest of it's kind in the UK with some 180 colleagues aged 16 to 20 currently enrolled on a 3 year programme to become qualified motor mechanics.  Engaged, trained and motivated colleagues will always provide the best service to customers, it's as simple as that, I am therefore truly delighted that Matt has joined us as our new CEO, he can walk the walk when it comes to employee engagement and customer services excellence - the journey has begun.

To summarise this is a half when we saw a marked improvement in performance in Q2 with good progress made in our strategic initiatives which I hope has been laid out today.  Looking ahead to H2 we are well prepared for the important Christmas and Winter trading period and of the solid trading programmes in place.  Our outlook for the second half remains cautious given the prevailing pressures on consumers and our retail planning assumptions, as laid out by Andrew, remain unchanged.  As has our guidance for a full year PBT of £66 to £70 million.  Halfords has a strong balance sheet and generates a healthy cash flow, we will continue to proactively capitalise on what we see as significant marketing opportunities and deliver on our strategic initiatives.  Now before taking questions Matt would like to say a few words,

**Matt Davies** – I really just want to say hi and introduce myself, as many of you are aware I spent the last 8 years at Pets At Home running the business, one of the questions I'm asked is why I joined Halfords, for me there are 3 main reasons. Number one is about the scale of opportunities going forward, number two it's about the quality of the people in Halfords and number 3 it's about the way Dennis enunciated the overall strategic vision built around the 3 pillars which I think is absolutely right. So excuse me for not actually saying a bit more but when we added up all the days I've spent in the business - I've actually only spent about 20 days so far because I've just come back from a week long cycling trip in Israel. I've been trialling Halfords products, I can testify to the quality of the Boardman bike and most importantly, having cycled 300 miles up and down hills in about 30 degrees heat, the comfort of the gel seat! So I look forward to meeting you and getting to know you over the coming months but I just really wanted to say hi, thank you.

**Question** - Morning, John Stephens, a couple of questions, first up just in terms of the Christmas bike ranges, can you comment on how they compare year on year in terms of price points and maybe to the extent of the range? Second question, just on the stores and the lab stores, I appreciate it's very early days but what is your experience telling you about your medium term space needs, either in terms of footprint or number of stores and finally if I can throw a third one in, just in terms of customer service investment, which you've alluded to quite a lot, what are your priorities going to be?

**Paul McClenaghan –** As Dennis said, when we introduced 23 children's character bikes along with a vast array of accessories that matched the bikes, prices range from £40 up to £100 across the range, I think the important thing is that they are clearly differentiated from the market models that we've got, there are some really interesting ideas around the range, for example we've got sirens for the fire chief bike, we've got a ray gun for the space bike and there are some really interesting features that I think will cause kids to nag their parents to buy these bikes, they really are great and the quality is really superb, this are not just cheap kids bikes these are well built, well maintained quality products.

Q John Stephens - So are you offering more features for the same price? Is it similar to the price stretch of last years range?

**Paul McClenaghan** – No it's a much different approach than last years range, I think the differential between the entry and the sell-ups are much clearer so there is clear tangible added value features as you're going through the range and the price points reflect that.

**Dennis Millard** - As for the laboratory stores, each one is different and we're trying to learn different things from each one. Iit is early days and one of the interesting things is we're trialling the use of laptops for our staff which is something new, we haven't had that before, staff are able to engage much better with customers either to search for the product and at the same time to give them some advice as well as delivering answers then and there. So it is very early days and we are trying to extrapolate that into how many stores, how big etc, it's just to early at this stage to say and so kicking out one or two ideas into the long grass at this stage and when the time is right to expand you'll know and we want to also give Matt the opportunity of taking part in this as well. This has been running for some time, we want to get through the Winter period, we want to get through Christmas and learn the lessons from that as well, learn different lessons from different stores, having gone around some of the stores with Matt, he's got some very, very interesting ideas as well that hopefully we could take on board. The last question was to do with service. I mean I think you've got the sense of the pattern which it's coming across in this retail environment and particularly because about something like 60% of all of our products that we sell have some sort of service expertise attached to it, we have to be good at it, so it starts with we have to be good at it, that's a given but we have to be very, very good at it to draw customers into our stores and our online offering, to succeed in this environment and we are very determined to get this right. So as I conceded in the last few years perhaps we have under invested, we are going to put that right going forward. I think some people have made this binary step regarding customer service investment which is “oh therefore your costs will go up”, that’s not always, not necessarily the case, one thing we do know, if you get better at it you know what will go up, your top line, I know in the second quarter had we been better served in our stores we would have sold more bikes and we would have sold more product.

**Q – Chris from Barclays** – Two questions from me please. So the first one is on your new clothing range which you announced today, what percent of space will that take in a normal store and how will we think in terms of what that could mean for the margin mix, and then secondly on the new Boardman range that you’ve announced which is sub £500, why does Halfords need to have another brand which is mid point rather than the higher end, I thought Halfords was good with mid price bikes, so the rationale for that thank you.

**Paul McClenaghan** – Primarily the clothing range will be online and more of the things that Dennis alluded to in the PAC’S programme will initially be an online only programme with limited items in store. One of the things we’ve learnt with the laboratory stores is bringing clothing on to the shop floor makes it easier for our customers to shop and in fact introducing a very small range in store we’ve seen some success in that part of the laboratory test. We will be bringing a clothing range into around a hundred stores in the Spring, but it will be a small range compared to the online offer and based around 4 free standing units so the footprint will be quite small. The clothing has been primarily brought into the store to make sure that we offer cyclists more of a complete solution to their needs, we’ve seen with the introduction to Boardman bikes particularly that people are cycling more often now on their bikes, less of family cyclists having a one off event in the Summer and much more regular cycling so maintenance, parts and pedal is actually just good customer solutions to regular usage of cycles.

**Dennis Millard**– On the Boardman range the one mentioned in the presentation was designed to hit that sub £500 price point particularly for the cycle to work scheme. This has been very successful for us and the Boardman brand has been by far and away the biggest seller on the cycle to work scheme but there are a number of participants on the scheme that are looking for cycles more around the £500 mark and we felt that this would hit the sweet spot for cycle to work. It will be launched in December and perhaps Andrew you could talk about some of the attributes of that.

**Andrew Findlay** – well it's actually worth saying that the competition Specialized and Giant all offer sub £500 bikes and we thought the time is right, now that at Boardman equity is at a better level we can move the price down slightly and still retain the value of the brand they offer fantastic value against the competition and anyone who understands cycling can see that, so bringing the range to a level that offers great value without undermining aerometry and build quality I think was the right thing to do.

**Q -** Morning guys, two questions really, the first one was you touched on the engagement survey that you did with your employees, I was just wondering if you could give us any feedback on that?

**Dennis Millard -** I think probably if you were to summarise it all and particularly bearing in mind the largest contingent of people putting input was our store staff, what came back from that was that we needed to provide them with much more support, they needed the tools to do their job properly, and hence we started on this mission and it sounds trite to say - well what we've done is we've turned the head office and renamed it the support centre but actually when you go around the support centre now the people get the message that they're there to support their colleagues to best serve our customers, so everything now starts with that, because I don't believe that was the case over the last few years, so it's changing the mindset. We've talked about taking the organisation pyramid and turning it on its head, we're there to support those people at the front line so a lot of the feedback on that and what we have put in place is a very, very strong programme to make sure that we act and when we don't act we explain why we haven't acted and that we feedback. We are going to have another colleague engagement survey, I think it's in April but not a full one like we did before but to test the water to see if we're making progress. I think one of the interesting things was, and I think it does underline the point I made about the support centre was, the feeling that the people in the stores or out in the field felt that we wouldn't necessarily act on what they told us and it's up to us to act, I mean every single Executive in the organisation is focused on that and the feedback has been very, very good. We're not only listening to our customers, we're listening to our colleagues because they're the voice of the customer.

**Q –** When you look at the investment that you're making in training and obviously the additional resource that you're putting into fitting, is it fair to say that Halfords has quite a high staff turnover relative to the rest of the sector anyway, is it sort of mid 30's and therefore should you be, are you addressing that issue more this year as opposed to the training costs become an ongoing part of the cost going forward into next year?

**Dennis Millard** – I think all of the programmes that we're putting in place with our staff, our training, the recognition programmes, the bonus programmes, the way in which we treat people, those are all designed to make our colleagues more motivated and better serve our customers, so at the end of the day, if you do those right you, your staff turnover will come down naturally. We are also looking at the store rotas, their hours, whether or not we need people on the short term contracts that we have, the short hours contracts that we have, we're looking at all of that because if we get that right the natural consequence will be that turnover will decrease and the price of that, as you all know,is actually very high so that's a hidden cost that's there that hopefully will subside.

**Q -** Ok and just one the last question on your online mix, can you tell us what it is at the moment by category and also when you add the cycling parts and accessories what the overall SKU count is likely to increase by?

**Paul McClenaghan**– The online mix is electronics, a big part of our online business, the Sat Nav part, beyond that is cycling, another big and growing part of our online business. Child seats and the behaviour of the customer is for the main, where we add value to the transaction in store. We see a huge take up of reserve and collect and that tends to be around cycling products. Primarily around the 3B's where we fit the bulb, blades and batteries but also on audio where we install the head units for the customer as well, so where we see we add value to the transaction is not only do we provide a service to the customers in store, we also see a bigger share of the online business going through those product categories.

**Andrew Findlay** – As Paul said we've been consistent in the sense that our technology has the highest participation, cycles are the second highest participation and car maintenance is by far the lowest participation. There is a seasonal shift in categories so in the Summer you see a significantly higher participation as a result of cycle parts but you see a lower participation online as a result of the higher participation of car maintenance parts in the Winter so it does shift by season and it is different by category but overall in Q2 our sales were around, for the halves sorry, around 10% of our sales.

**Q –** Morning, I'm Mark. Just a question on Autocentres. You talked in the past about the opportunity to increase productivity er in the centres, could you talk about the progress you're making there and your longer term aspirations and also how you're getting along in terms of the cross term marketing, how many of the bookings are coming through from the retail site at the moment?

**Dennis Millard** – As far as productivity is concerned I think when we took on Autocentres I think the way in which we measure productivity is the number of jobs per technician per week, and I think it was at the level of about 14, we're now at about 16, part of that increase is just better productivity and part is because of the mix. More tyre fitting jobs are being done and obviously they take less time so therefore you can be more productive in terms of the number of jobs, so we still have some way to go to get that mix right but as far as the cross marketing is concerned I think that has been massive but to distinct the products being sold across. We do have a promotion currently with Esso where in fact if you fill up your tank with Esso, I think 3 times or whatever it is, you get a voucher and then you can come and get a full Winter check up and at the same time we're offering some Halfords products so there is a bit of that, it's not fundamental, the most fundamental thing as far Autocentres is concerned is the Halfords name and that is definitely driving business into our centres. If you look at the way the market is going relative to how we've grown we've got to be taking market share and we believe that has a lot to do with it and a lot of the investment that we made in the marketing investment is probably for a business that is significantly larger so there's a lot of front end loading to get our name on the map as far as repairs and servicing and MOT is concerned.

**Q –** You appear to have sold through your bike stock rather quickly in Q2 have you successfully restocked in time for Christmas already?

**Paul McClenaghan** – The Christmas dynamics change from the Summer dynamics so the sell through was primarily on premium bikes which has a much lower percentage of importance over the Christmas period and comes back in the Spring particularly in February, March and April time. We've got fantastic coverage of our kids range and actually the recovery of our premium bikes has been building and in fact is probably better than we expected particularly around the Boardman recovery, so not quite there yet but in terms of the shape of our stock available for sale it reflects market demand at this time of year.

**Q –** To win market share in new customers how are we doing in terms of CRM clients at customer satisfaction and also customer retention, repeat rates, things like that?

**Andrew Findlay** – Autocentres are a key focus of the business, customer attraction is one measure that we look at daily and customer retention is another. The retention rate that we've seen in the business despite the increased number of customers we've attracted to the business is retention rates stay pretty static so that's a good result and we absolutely focus on it within the business, we spoke to the MPS stores, that's a key focus in the business, we have a similar process for doing Autocentres as with retail, the uptake is actually higher given much more service business and our customers respond more readily within Autocentres than they do within retail and it's a part of the incentive scheme for our Autocentre Managers, so again it's a very key part of the business, it's something we are obviously focused on because it's something that part of the business needs to do well and we need to learn from the work we're doing in Autocentres to do better in retail as well.

**Dennis Millard** – I think one of the things we have talked about, the e-diary system, we are building their workload as well and with the e-diary system it's going to enable us to do 2 things to attract customers better and also increase our productivity, there's no doubt this should drive productivity but also give us an insight into current customers, it's more unwieldy to get to that and really you get the type of information we need to be able to remind the person about the MOT, to remind about the service programme, remind them about the amber items that they came in and saw, they could be a red item now and therefore dangerous to be on the road, so we're making sure that is something we're investing in as well.

**Q –** Geoff, two questions please, one the nuts and bolts first of all in terms of gross margin, you've highlighted various mix impacts can you give us the sort of net impact of product mix movements, I'm just trying to get at the sort of underlying investment because there are positives and negatives in terms of swings.

**Andrew Findlay** – minus 19 basis points, that's the negative impact.

**Q –** Ok, I'll take it that. Second in terms of your investments is there no temptation on your part to actually pause and allow your new CEO to stamp his mark on the execution of them, I can see that he's endorsed the sort of broad thrust this morning but you're hiring a lot of people, you're trialling new stores, you're doing a lot of work in terms of range all simultaneously and as he himself said he's been in the business 20 days and this is no doubt going to be a 3-5 year plan so why the rush given he's only just joined.

**Dennis Millard** – well there wasn't necessarily a rush we laid out our strategy 6 months ago and so we've been implementing that strategy, some of the big decisions that need to be made going into the future and we touched on one being the store portfolio that's something we're going to take our time over and obviously Matt will have full opportunity to participate we need that, so it's not a matter of us going helter skelter, it's a matter of being able to show, hopefully to all of you here, that we laid out a strategy and we're implementing that strategy, I think Matt alluded to the fact that broadly, as far as the 3 pillars, they make sense and we're executing on that, when he gets into the job obviously he's going to have his influences on this speed, of some of the shape of some of these but not necessarily to fundamentally change the shape.

**Q -** Ok and vis-à-vis the dividend obviously you'll leave it for another day in terms of the big debate.

**Dennis Millard** – correct.

**Q** - good right is there a situation where you see capex being a big part of the answer to restoring proper returns in the Halfords business?

**Dennis Millard** – We're not a very capex heavy business if you look at our stores, we're not like a department store where you have to invest quite a large amount of money to upgrade a department store and also the area in which that would happen would tend to be in our stores and we talked about the fact that our store portfolio has a number of leases coming up for renewal and that tends to be the best time to do this because you can negotiate with your landlord and hopefully at the end get them to pay for it, so no I don't think it's going to be a huge, huge change necessarily and if it is and the store portfolio of our size you don't do that overnight, I mean it's practically, it's impractical to do that.

**Q –** Simon Smith. A couple of questions the £6 million and a half I guess that translates to around £10 or £12 million of additional support costs that you said was down to recruitment and training how much of that is a permanent increase in cost and how much is one off?

**Andrew Findlay** – We were clear at the time we gave a split of what the £6 million was, we've got £3.5 million associated with fitting, we had circa £1 million on, £1.5 million on the online fulfilment proposition and a further £1 million on capability, now from our perspective that number is absolutely ring fenced and if we see appropriate and we feel that we can take out further value added, non value added costs we'll invest more but there's an element of that clearly that will continue as Dennis said around service and ensuring our teams in the business are well trained to deliver to our customers. Just take a step back, 3B's fitting has been a great success we did not train, frankly we didn't train our store staff formally on fitting effectively, they've trained on the job with the Manager in the past, During H1 we invested in training 450 plus the incumbent fitting teams we did things like building small boxes with blankets so they could fit it blind folded, we sent them DVD's, we did all of this training really to make sure that we could fulfil on the proposition that we were giving to the customers via the advertising campaign. So far it's worked we've seen the potential in Q2, we're ready for the opportunity in Q3 and beyond, so as long as these things work and these investments payback we will continue to invest. And that's a very clear message that we want to give to you guys is that if these things really do work we will continue so there will be an element of continuation and there will be elements that will stop.

**Q -** Ok thanks and second question is on the cycle market share, clearly it's been a great last or second quarter for you, do you know how in the mid market where you specialise, how you've done in the last half?

**Dennis Millard**– We actually have currently a project to really get a good handle on the cycle market as you can imagine there are a few bigger players and there's thousands of independents and we're currently, that data is being gathered by verdict and hopefully at the end of the day we'll get a better steer on that. I think it's moved, you used to say about a third of the cycles market, about a third, then we took 25%, jury's out, you know time out on that one.

**Q** – Hi Andy Wade. Just one from me, there's obviously a lot of good stuff going on focusing on the fitting and investment in staff, new bike ranges and brands there's the PAC'S programme, but a lot of it seems to be more focused around the areas that are doing well with cycling and car maintenance particularly, travel solutions and car enhancement there is a bit around obviously ranges and that sort of thing but there doesn't seem to be so much, should we expect those elements of the business to continue to shrink in terms of the mix or be out performed by the others?

**Paul McClenaghan** – I think it's right we invest where the market is, it's right that we invest where the momentum is and where the customer demands level of investment so we are.  We are in line with the pillars backing the winners as far as travel and touring is concerned, I think that we've seen a difficult start to the year because we didn't get the weather we've still got a very low share of the camping market, a single digit of the camping market so that's an opportunity for us and as Dennis alluded to we have invested in a new camping range, we're determined to drive differentiation through brand design and specification and the new ranges will do just that.  As far as electronics are concerned we change the range every year so it's never the same because the range is dictated by the supplier base and in most cases we are building capability for DAB so the key thing for us is to make sure that we've got capable well trained individuals that can then meet the demand of the upsurge in audio when DAB announcement comes, so that's going on quietly in the background as we manage that going forward.  When it comes to car accessories that market is more challenging, I think that we've invested less in that market because there are less returns to be had.

**Q** – That's very helpful – thanks.

**Q** – John.  Firstly on the PAC'S programme can you clarify whether there is a big stock investment or whether it's largely going to be direct supplier fulfilments. Secondly on the service levels obviously we had a lot of noise around, followed by the weather, followed by the Olympics but stripping that out have you got any evidence that customers have noticed the increased service whether its through exit polls or mystery shopper or that kind of thing that you can show us and then thirdly you mentioned cycles were up, I wondered if you could give us an update of how much that market has come back where it is now and material that is to your cycle business?

**Paul McClenaghan**– So PAC'S stock we mentioned 13,000 SKU's of which most of it we've done with suppliers we are going to utilise the infrastructures for the offer so we will carry a small amount of stock in our business as we learn, and as we learn both in terms of stores and online we will bring more in in-house, one of the things we've focused on is how can we provide a better offer to our customers? We're an omni channel retailer, we've got some great opportunities for differentiation through use in stores as a return base, convenience of getting the products fitted to the bike but equally we want to make sure fulfilment is comparable if not better than the competition. We're working hard with suppliers to do just that and where we can't we'll bring the product in house to make sure we deliver the best of the best service to our customers possible, I imagine of the 13,000 working assumption will be 3 or 4,000 lines will come in house.

**Dennis Millard** - Just on the service it's hard to compare that peak trading period with where we are today because obviously we test the market as much as possible so rather than handing on the specifics, rather I give you an anecdotal one which is today we spoke to one of the journalists at The Sun and who praised us for our service at our Reading store so if anyone lives at Reading, go to the Reading store, they're really great and the answer is I think there is no doubt that there is a better feeling amongst the store teams and that will take time obviously to translate in the way in which you deal with customers but everybody in the store teams are very, very clear front and central it's the customer.

**Paul McClenaghan** – So we have seen some growth in our cycle to work business particularly as we focused on acquiring new schemes and also we've seen a bigger take up of existing schemes and I think where people have taken advantage of the cycle to work initiative and in the spirit of the Summer of sport, let's get out on our bikes, so we have seen an uplift, it's not been dramatic but it's been promising in terms of share of business, it's not moved forward so overall I think it’s played it’s part but it’s not been the over riding factor behind the success of our bike business.

**Q** – Adam Cochran. Just two quick questions, firstly on the referral from Halfords Autocentres, is there more you could do in store to get customers from the footfall you’ve got in the Halfords store to suggest that they use the Autocentres offering and secondly on the online delivery proposition can you say where you are in terms of next day delivery, what proportion of your products are there and how much can be improved on that because there are clearly areas where I personally think there is some opportunity for you guys.

**Dennis Millard** – I should have mentioned at the time when the question was asked, every time our “we fit” technicians do a job they will attach to the slip and they will hopefully engage with the customer and the slip will show them if you say you want your car serviced, maintained whatever it is, here is a flyer saying here’s a map to your local Autocentre. Hopefully the better ones will when they’re lifting the bonnet up be able to look at the engine and say you know you are probably in need of a repair or an MOT or when are you due an MOT etc so engage with them and that should be able to increase that referral rate, look at the tyres and say looking a little bit thin perhaps you should go and here by the way Autocentre Halfords. I hope you’ve enjoyed the experience here today our sister company is down the road and this is where you go.

**Q** - Will you be able to capture that some how and make sure that they’re paid accordingly somehow?

**Dennis Millard** - Those are the sorts of things we’re looking at we don’t want to over engineer the solution at this stage, we want colleagues to feel engaged and hopefully they’ll get two way traffic as well because certain people might pitch up at the Autocentre and say look it’s just my bulb and they say well look get it fixed right now just drive down to our retail store.

**Andrew Findlay** – So the offer on line, currently we have next day delivery if you order before 6 direct to customers homes, if you order before 12 it's direct to store free of charge.  We found the customers take up the store offer, they really like the idea of collecting from a local store given our coverage in our drive time for most conurbations, that's worked really hard for us, direct deliveries play a small part in our customer, in our web offer online because of the multi choices they have about collection or direct to store. They really like the free of charge order and collect next day from store that seems to be the thing that really resonates with the customers.

**Q** -  and is that across the majority of your range?

**Andrew Findlay**  - Yes but it tends to be I think the same point I made earlier where we add value to the transaction people take it up more often so when we go to the store not just for the convenience of collection but to take up the bike being built or the bulb being fitted or the sat nav being set up, we see a much more take up of those product categories, so for example on core technology products where there is no added value or core consumables it's mainly direct.

**Q** - And are you managing when you get your customers to come in store to pick up products to try and attach any additional sales?

**Andrew Findlay** – Yes, we have because it's good customer service to offer the right product to go with a bike or to go with a product so we encourage our colleagues to make sure they do what's right by the customer and that delivers a bigger basket when they come in.

**Q** - Hi it's Simon. Just give this question some context, historically how difficult to get some premium brands to sell bikes through the stores, so I'm wondering how the premium PAC'S offer that you're putting online and potentially bringing into store, of those 3 to 4,000, SKU's that might end up in store are those at the more premium end going to be offering online or are there suppliers restriction agreements with those brands over whether you can sell them in store?

**Andrew Findlay** - By in large suppliers have been very helpful in delivering what we want as a business, they can see the opportunity that Halfords affords them with the right reach of stores and the web, I think they're probably concerned about the current channel management of products particularly where they're placed and maybe they're looking for some leverage to that, I don't know but they have been very supportive of the opportunity, more so than I think I expected, we worked really hard with them and we sold them the story, I think they believe in it, I think it's an important thing for us to do and right for them, so far there has been very little restrictions, generic restrictions there maybe some challenges around locality but by and large that doesn't seem to be a big problem for us.

**Dennis Millard** –Thank you very much for your time and I'm now going to get on my bike!

-**Ends-**