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Transcription

Title: Halfords Q3 Analyst Call

Date: 19.01.2017

Speakers: Jill McDonald and Jonny Mason

Conference Ref. No: EV00051343

Duration: 48:46

Presentation

Operator

Hello, and welcome to the Halfords Q3 analyst call. For the first part of this call, all participants will be in a listen-only mode, and afterwards there'll be a question-and-answer session. Please note that this call is being recorded. Today I'm pleased to present Jill McDonald, Group Chief Executive. Please begin your meeting.

Jill McDonald

Good morning everyone, and thanks for joining the call. With me today is Jonny Mason, our CFO, and we'll start by giving you a brief overview of this morning's statement and then Jonny and I will be happy to take your questions.

So, there were three key pieces of news in today's statement. Firstly, the strong Q3 sales performance, secondly the investment in Tyres on the Drive and the accompanying operating agreement, and thirdly the announcement of a £20 million special dividend. And I'll cover each in turn, starting with Q3 trading.

So, overall group like-for-like revenues were up 5.9% in the period, with retail like-for-like up 7% and Autocentres down 0.6%. There was a strong and balanced performance across the retail business, with all categories in growth. Promotional activity was also as planned during the period, and at similar levels year-on-year. To give you a bit more detail, motoring sales increased by 6.8% on a like-for-like basis during the quarter, with all categories growing well. Car maintenance sales were up 8.4%, and the colder weather year-on-year helped sales of batteries and winter-related consumables. But the growth was also driven by non-weather-related products, such as hand tools and metal storage. Car enhancement sales grew by 0.6% on a like-for-like basis, and that was driven by the strength of our dashcam offering and wide range of car cleaning products, which more than offset the continued decline in satnav sales. The like-for-like travel solutions growth of 15.4% reflected strong sales of travel equipment, roof boxes, roof bars and cycle carriers, as well as child car seats, which have benefited from our Netmums accreditation and the increasing awareness of upcoming legislative changes.

So our cycling category performed well, with overall sales up plus 7.4% on a like-for-like basis, and this is reflecting successful execution of the Christmas and Black Friday peaks, as well as new bike ranges and a strong past performance. Both Cycle Republic and Tredz performed very well during the quarter, helping to grow the total group cycling sales by 22%.

As I've emphasised before, improving service and services are key parts of our strategy. They are what sets us apart from the competition, and service-related sales were again strong, this time growing by 14%, reflecting 3Bs fitting and cycle repair growth. Online sales across the group were up 39% for the period, reflecting the addition of Tredz and Wheelies plus strong like-for-like growth in retail and Autocentres of 16%. In Halfords and Cycle Republic, 80% of online sales were collected in store, rather uniquely for Halfords compared to other bricks-and-mortar retailers. This means that our online sales are driving footfall into stores, rather than cannibalising the store channel.

Turning to Autocentres, like-for-like sales were down 0.6%. As previously communicated, it is a year of investment in people, systems and centres, as we continue to make improvements in the customer proposition to drive long-term growth. The operational changes we made earlier in the year, in particular Sunday opening, and a new tech grading pay system, are bedding in well and customer metrics are improving. We continued to make progress on our "moving up a gear" strategy. In November, we opened the first Store of the Future concept store in Derby. We've also continued with our improvements in customer data, with 40% of sales now matched to customers. And next week, we launch Dayforce, a major IT project that is designed to replace a number of legacy systems to enable more efficient people scheduling across the group.

Looking ahead, there is no change to our expectations of group profit before tax for the full year, which we expect to be in line with market consensus. With respect to FX mitigation, we have developed detailed plans to offset the increases in input costs, and we are making good progress with executing these. We remain confident that we will be able to fully mitigate the impact, although the timing will depend on tactical trading decisions. We also announced today that we have signed an operating agreement with Tyres on the Drive, which is a UK mobile tyre fitting business, alongside a minority investment of up to £8 million. Tyres on the Drive is a fast-growing operator that fits customers' tyres at home or at work, and reaches 85% of the UK population. It achieved first-class customer service through its convenient and professional proposition based on a bespoke online platform. Now, this investment and agreement fits squarely with our strategy to continually improve our service and services proposition, and the convenience of our offer to customers. We will leverage each other's capabilities and expertise to deliver cost and revenue synergies, and to support Halfords to trial a mobile delivery proposition for its motoring services.

Now, as you will remember, last June, we set out our debt target of one times net debt to EBITDA, which we said we would arrive at over time. Having expanded the group's capabilities in both of our key markets in recent months, we do not expect to be undertaking any further M&A activity in the near future. Accordingly, the board has approved the payment of a special dividend of 10p per share, which is approximately £20 million, as part of our progress towards our debt target. This special dividend will be paid in February 2017, and we anticipate that, following this special dividend, net debt to EBITDA will be around 0.8 times at the end of this financial year.

So, to summarise, good growth in all retail categories as we execute the "moving up a gear" strategy. With particularly strong performance in delivering our weFit services. Further strategic progress to our Store of the Future opening, continued improvements in customer data, and the roll-out of an important new IT system to stores. An operating agreement signed with Tyres on the Drive, alongside a minority investment of up to £8 million, to further enhance our service-led convenience credential. And the announcement of a special dividend of £20 million to be paid in February 2017, consistent with the capital allocation priorities previously set out. So, thanks for listening, and Jonny and I will now be happy to take any questions.

Q&A

Operator
Thank you. Ladies and gentlemen, if you do wish to ask a question, please press 01 on your telephone keypad. If you want to withdraw the question, you can do so by pressing 02 to cancel. We'll have a brief pause while questions are being registered.

The first question comes from the line of Charlie Muir-Sands from Deutsche Bank. Please go ahead, your line is now open.

Charlie Muir-Sands
Good morning guys, and congratulations. I've got three questions, if I may.

Jill McDonald
Sure.

Charlie Muir-Sands
The first one is on the gross margin performance in the quarter, where you said it was in line with expectations. I just wondered if you could give a little bit more granularity. I guess that that means a performance that was similar to H1, but in the first half I think you called out specifically more promotion on bicycle year over year, saying that promotions, you know, in the third quarter were roughly stable year over year. So, is this more currency pressure, or – and is there any sort of significant mix? That was question one. The second one is just turning on to those currency mitigation plans, I wondered if you could elaborate a bit more on, you know, what they are in terms of how much you envisage having to increase prices versus, you know, push back down the supply chain?

Jill McDonald
Sure.

Charlie Muir-Sands
And then finally, on your – your deal with Tyres on the Drive, the company's half filings are quite light, because it's classified as a small company, so there's no P&L. So I wondered if you could just give us a few metrics on roughly how big the business is, and how profitable? Thank you.

Jill McDonald
Sure. Okay, Jonny will take the gross margin and the Tyres on the Drive question; I'll handle that mitigation on FX.

Jonny Mason
Oh. Okay. So, gross margin, I think what we said at the half-year was that we expected the second half's growth margin to be down year on year, the same as the first half's was, which was roughly 275 basis points. And we are sticking to that. The comment in the – in the release today was – was meant to imply that everything is in line with that guidance. At the first half, as you mentioned, there was a significant contribution from promotions over summer. That we haven't repeated. This sale – this sales growth has been driven without significant promotional activity. Nothing unusual and nothing out of line with last year. So the reason the margin is down the same amount in the second half as the first, is because the FX impact grows in the second half as the hedged rates roll off. So everything exactly in line with what we said at the half-year. Jill will talk about FX mitigation in a moment, but in terms of – in terms of Tyres on the Drive, we've made a modest investment here, which will be below, you know, it's below the 20% level in terms of our stake, so we won't be consolidating any income from Tyres on the Drive; it will fit as an investment on our balance sheet. The rationale for doing get is twofold. We will be able to deliver cost and revenue synergies into Halfords from operating with Tyres on the Drive, things like buying tyres together, referring customers, trialling each other's products with – with the other one. But there is an important strategic rationale as well, which is that this will enable us to explore putting our weFit services, which are growing very nicely in store, putting them mobile. And – and those are the reasons we have made this investment. Tyres on the Drive itself is a small but fast-growing business. It is currently loss-making, but, you know, we – we think it will break even in – in the not too distant future. You know, we think the sales this year are going to be in the sort of 40 to 50 million range.

Charlie Muir-Sands
Great.

Jill McDonald
So, just to – to turn to your question – to FX. So just to give you a little bit more colour as to our confidence in being able to mitigate FX. We've obviously been working very hard with suppliers over the last few months, and we are beginning to see the results of those negotiations coming through. So, for example, there are all sorts of different agreements that we have with suppliers, but we in some examples have improved rebates, or have got a better price structure based on us choosing to source more volume from a particular supplier, or we've put in place multi-year agreements with suppliers in return for improved pricing. So we've completed our negotiations with suppliers, and we're starting to see the results of those come through. Second, obviously we are looking at our own costs and efficiencies, and we have identified a number of process efficiencies that will enable us to be more efficient. And thirdly and lastly, price. Now, price is, you know, the last place that I want to turn to, but it is inevitable that prices will have to do – have to rise. Now just to sort of put that into context, we will be able to continue to offer good value for money to our customers, because we are, unlike many competitors, able to control our supply chain, because the majority of the brands we sell are our own brands. We are also starting to see suppliers to the cycle market raise their prices, and we are also seeing some retail prices go up already. So, you know, we are confident that we will be able to move price, but we will do so in a way that continues to offer good value to customers.

Charlie Muir-Sands
Great. Thank you very much.

Jill McDonald
Thanks.

Operator
The next question comes from the line of Michelle Wilson from Berenberg. Please go ahead, your line is now open.

Michelle Wilson
Hi, good morning.

Jonny Mason
Hi Michelle.

Jill McDonald
Hi Michelle.

Michelle Wilson

Hi. I guess just a – a kind of follow-up on the FX impact. You mentioned that the timing of FX mitigation coming through will depend on strategic decisions that you make for the business. Can you give us any sort of guidance in terms of how much of the FX impact is mitigated this year, and broadly what kind of time horizon you think you can fully mitigate the effects? And I have a couple more. Should I go ahead and ask them all at once, or –

Jonny Mason

Well let's deal with that one, because you're – so you can take a breath.

Michelle Wilson

Thank you.

Jonny Mason

So, so – we – the mitigation has begun to take effect slowly in the second half of this year. But, you know, the net impact of – the net impact is clearly negative, and that is what is encapsulated by our margin guidance. You know, we've – we've said that our gross margin is going to be down in the second half, about the same as the first half, and that's all FX, other than the mixed effect of Tredz and Wheelies. So, you know, that shows you that the mitigation is starting slowly. Now, we do think we'll get it all back over time, but not within the first year. And we are not at this stage giving precise guidance for FY18, but, you know, the market consensus at the moment is roughly flat profits and – and we are not so uncomfortable with that that we think we have to say anything. You know, that feels roughly right at this stage in the game. And – and so you know that – it's just arithmetic to point out that at current spot rate, the FX impact next year would be 18 or 19 million compared to this year. But nevertheless, consensus is showing flat profits. So that's – that's the metrics that we are comfortable with.

Michelle Wilson

Okay, great. And the other questions, just first of all on the strong cycling performance that you saw in Q2 and Q3. Can you tell us how that kind of compares to the market performance – if you are aggressively taking market share over the last couple of quarters, or if you've seen a big boost in the cycling market as a whole? And whether that improvement is sustainable? And then the other question would be on the – the acquisition this morning. Do you think the ability to offer sort of mobile motoring services could help you win fleet business in the Autocentres?

Jill McDonald

Okay. So, on the cycling marketplace, so, you know, cycling market data isn't the easiest to come by, but based on – on the insights that we have, we do think that we have been growing share across both the summer period and also as far as data is available up to Q3 as well. We think that the market has stabilised following a tough year last year, and tough summer if you remember that, but I'm – I'm confident that we have been growing market share. One of the particular highlights from the Q3 trading statement was the very strong performance on Apollo and Carrera bikes, which are the two biggest bike brands in the market, which often get a bit overlooked in the excitement of some of the higher-end bikes. And our overall group cycling performance was actually up 22%. So with the acquisition of Tredz and Wheelies, you know, the Halfords group can now meet, you know, any need for a bike, from, you know, the very first balance bike from a young child all the way up to the specialist high-end brands. So, you know, I think we are very well positioned to continue to grow market – grow market share.

In terms of your question on Tyres on the Drive, the mobile service idea, it is, it's something that we are seeing customers increasingly want convenience, and we think that, you know, certainly the Tyres on the Drive experience and technology and platform will enable us to, you know, test a mobile servicing proposition. We'll learn. We'll find out whether it resonates with the customer, and how, you know, the best way to be able to – to capitalise on that opportunity. We do think that, you know, our proposition alongside Halfords Autocentres, combined with Tyres on the Drive will be enhanced, because we'll be able to, you know, jointly talk to fleet customers. So we do – we do hope for some upside on that. It's – it's one of the synergies that we've identified.

Michelle Wilson

Okay, great. Thank you.

Jill McDonald

Thanks.

Operator
The next question comes from the line of David Jeary from Canaccord. Please go ahead, your line is now open.

David Jeary
Yes, good morning. I've got a few if that's okay, as well, apologies. So the first few on Autocentres. I wondered if you could provide a little more insight as to why the LFL's down, given all the improvements, the extended opening hours et cetera. It seemed a bit disappointing, given that the weather was helpful in the core retail business. On – and secondly on price increases, Jill, I don't know if you'll be able to quantify a little bit more what kind of price increases you're – you're maybe looking at, going forward? And lastly, given the strength of Q3, and lack of, or rather no change to guidance for the year, I wondered if you could remind us a little bit more about what expectations are relative to Q4. I appreciate in particular there is no Easter, for example, but I just wondered why guidance has stayed unchanged, please?

Jill McDonald
Right, okay. So, in terms of Autocentres, so, whilst total revenue was up 1.1%, as we've said, like for like was down 0.6 for the quarter. I think as we've – you know, previously explained, it has been a year of change in Autocentre. We've been making investments in people, systems, and we've changed the customer proposition to improve it to open on Sundays. And it's just taken some time to – to bed those changes in. You know, we are seeing some good improvements in customer metrics, so we do think that, you know, sales growth will flow from that. So, you know, it is really a function of – of some of the changes taking time to – to bed in on the Autocentres side. And in terms of, you know, the comments about weather, the Autocentres shape is a bit different to retail, because the Autocentres peak is still to come. So that peak comes around March – March time. So the peak is still to come in Autocentres.

In terms of your second question on price, you know, I'm not going to give the headline figure. It would be misleading. It changes – it will vary by product, and we will continue to review our pricing, and in some cases will lower pricing as well as putting prices up. You know, it is key for us that we remain competitive, but, you know, I'm very comfortable with our price assumptions because, you know, we are in such a strong position versus our competitors in the marketplace. Many of them are small independents who won't be hedged, and as soon as their suppliers put the prices up, they will be having to put the prices up. So we will be following, largely, which obviously will benefit market share growth. But I'm confident, with our supplier negotiations, we will be able to move price but still be able to offer great value for money for customers.

And thirdly, on Q4 expectations and why, you know, we haven't – haven't upgraded our full-year profit forecast, yeah, although we are extremely pleased with our Q3 performance, this is only slightly ahead of our own high expectations. The second piece to factor in is that we don't have an Easter in this year's Q4, so that will probably take around 2% off like for likes in Q4. So those are really the two reasons why the profit expectations remain in line with consensus.

David Jeary
Okay. Thank you very much.

Jill McDonald
Thank you.

Operator
The next question comes from the line of Jonathan Pritchard from Peel Hunt. Please go ahead, your line is now open.

Jonathan Pritchard
Thanks, and well done, guys. The other side of cycling, PAC, sounds like the numbers were quite strong there. Just saying to Adam before, he talked about attachment rates, about honing the range, about pricing. Could you just perhaps talk a bit about that, and how you helped that number progress? And then Derby – been open a couple of months now. Could you tell as the positive bits and the negative bits of the Store of the Future?

Jill McDonald
Sure, okay. So in terms of PACs, as you know, we've done a lot of work to improve our PAC ranges. So we have looked at ranging, we have looked at ranging of clothing, we have looked at being more targeted in our ranging. So, you know, just to give

you some – some sort of feel of what that actually means, you know, the heartland of Halfords retail is the mainstream leisure customer. So ensuring that our ranging is aligned to that consumer group is really important. And we've made changes on the back of that. We've also had, you know, really good and improved attachment rates, which is on the back of, you know, the really strong bike sales that we've outlined for quarter three. And I think probably the third element to touch on is value. We've taken a much more active approach to price matching online with some of our competitors, and that has really been supporting the sales growth as well. So I think I'd call out those three areas as being the sort of key drivers in terms of you know, strong growth in the PACs area.

And in terms of Store of the Future, we opened Store of the Future right at the end of November, so it is incredibly early to – to be saying with any certainty what's working really well and where we want to, you know, still make some enhancements. So, you know, overall, the changes and the top-line performance have been really strong, but it's, you know, six weeks in, so it's still very early. You know, some of the changes that colleagues are saying that customers are really liking is that we've got a park-up lounge, as we are calling it, where you can sit and wait while you're having your weFit service, and you can recharge your phone, there's free Wi-Fi, there's a decent cup of coffee, and we know that's resonating extremely well with customers. We've also introduced headsets for colleagues, which is enabling them to, you know – given our stores can be quite big, and often our colleagues are out in car parks actually fitting bulbs, blades and batteries, this enables them to stay in touch with each other, either to ask advice, because 8% of our customers want advice and our colleagues can tap into each other's knowledge, or if they need to have another bulb or another blade brought out to the car park, as an example, it enables them to – to do that really easily. So there's a number of features that are going really well. Honestly, I haven't heard of anything that isn't going well, but I'm sure there will be things that we will – we will need to refine as we get into the next iteration. We plan to open about three more in Q4.

Jonathan Pritchard
Great. Thanks a lot.

Jill McDonald
Thank you.

Operator
The next question comes from the line of Kate Pettem from Rathbone Unit Trust Management. Please go ahead, your line is now open.

Kate Pettem
Good morning.

Jill McDonald
Hi, Kate.

Kate Pettem
Hi. I'd like to know what proportion of your click and collect customers actually make an additional sale in the shop, and what the value is of that sale relative to their initial sale. Also, what sort of cost savings do you expect from the implementation of Dayforce once it's completely rolled out and bedded in?

Jill McDonald
Yeah. So, in terms of the click and collect proportion, a significant proportion of people will make an additional sale. You know, they will add things to their baskets. If they are coming into pick up a bike, it's a great time for our colleagues to be able to, you know, increase attachment rates of PACs for example. You know, we've got high cross-shop between cycling and motoring, so if you're coming to pick up a bike, 'Oh, whilst I'm in, I'll grab some screen wash or some de-icer, et cetera.' So, you know, I'm not going to get into sort of the individual figures, but we do see, you know, a good attachment rate that is growing, and an increased pound value in terms of sales that they're putting into their basket when they come in.

So in terms of – of Dayforce, the key benefit is that the new workforce scheduling tool will enable us to redeploy particularly store managers to more customer-facing tasks and service, which is obviously key. You know, the Dayforce payback is within four years, which is our hurdle rate, so, you know, we are happy that it meets the internal return on capital investment criteria that we expect. And, you know, what we are not doing is planning to cut hours as a result of this. It is really about redeployment and saving on some inaccuracies that can happen without a good tool to be able to manage your colleague hours.

Kate Pettem
Okay. Thank you very much.

Jonny Mason
Thanks, Kate.

Operator
The next question comes from the line of Matthew McEachran from N+1 Singer. Please go ahead, your line is now open.

Matthew McEachran
Morning guys. A couple of questions from me, if that's okay, just first on Cycle Republic. I wondered if you could give us a bit more flavour specifically on that business, particularly given the – the online launch now complementing the store base?

Jill McDonald
Sure. Yeah. So, in the quarter we opened Leeds, so we are continuing to open shops. We launched online the CycleRepublic.com site in August, and whilst it's small, it's fast-growing. It is doing what we thought it would be doing, so we are pleased with that. And we're seeing really strong like-for-like sales in our Cycle Republic stores that have been open more than – more than a year. So, you know, overall, I'm really encouraged with – with the performance, and, you know, it adds up to – I think it's about 1% of group – group revenue. So it remains quite a small part of our mix, but one thing that we have done is a lot of customer research to, you know, understand how customers are viewing Cycle Republic, and it's very favourable, with a clear positioning around commuter cyclists, which is really resonating. So we are pleased with progress, I think I would sum it up as.

Matthew McEachran
Yeah, that's interesting. And going back to the earlier question on PACs, I mean, you previously cited the Cycle Republic online launch as being a very important component of – you know, of getting the PACs to move back into growth. It sounds like you've been doing it in a number of ways, but is it right to say that Cycle Republic is delivering on that – that target?

Jill McDonald
It is, but it's very small. So, you know, the growth that I was talking about to Jonathan on our PACs is really driven primarily by Halfords retail action. The – the CycleRepublic.com is important, I think, for the credibility of Cycle Republic as a brand. So, it's small, it's growing well, the PACs are growing well, so it's high PAC sales online, but in terms of the overall numbers, it's quite small in terms of its overall contribution.

Matthew McEachran
Yeah, that's great, thanks. And then follow up on the – on the click and collect question, but a more wide basis about your contact strategy and upsell strategy. I mean, you've now got, you know, a reasonable amount of your transactions being at least linked to consumer. Could you give us a sense as to whether or not you'd actually be able to leverage that to any degree yet, and if not, when might you actually start to be able to leverage that and build that growing database?

Jill McDonald
Yeah, so just to give you a flavour of what we are actually doing with the data, because obviously it is one thing to be collecting the data, but it's all about how were actually using the data. So we did see, for example, over Black Friday as an example, conversion from email promotion – conversion to actual sales up 60%, which is fantastic. And over the quarter, we are seeing our open rates increase by 50%, as another example. So what this is enabling us to do is to be able to better target our messages to customers, and we are seeing that flow through in terms of both that conversion to sales, and getting the interest in the first place to be able to open them. You know, it's things like, you know, we are able to, you know, track and understand, you know, what our customers are looking at on the website. We are able to – if they're tapping in their car registration number, we then hold that data, and are then able to understand when their MOT will be due, for example. And our Autocentres are able to follow up with an MOT, whether that's an offer or just a prompt. So hopefully that just sort of gives you a bit of a flavour of what we are actually doing with some of the data.

Matthew McEachran
Absolutely. Yeah, thank you very much. And maybe just one cheeky final question, if that's okay. Do you have any plans to range golf buggies online or service buggies in store?

Jill McDonald
Ha, ha, ha.

Jonny Mason
That is cheeky. You're absolutely right.

Matthew McEachran
I guess that's where I get cut off. Thank you very much, and well done.

Operator
The next question comes from the line of Adam Cochrane from UBS. Please go ahead, your line is now open.

Jill McDonald
Hi, Adam.

Adam Cochrane
Hi, good morning. Most of mine have been asked, so just two from me. In terms of sort of the strategy of buying complementary businesses, you've bought a few. Are you sort of getting better and better at integrating these businesses into the – into the sort of the core Halfords portfolio? And you announced a special dividend, because there is none coming in the near term. As a sort of complementary and future growth strategy, do you think there are sort of other areas out there that you could explore, obviously not in the near term, in the mid-term, to help that growth profile?

And then secondly, in the past, sometimes when you've seen a strong Q3 in car maintenance and bits of car enhancement, with the de-icer and things, often there's been a bit of a pull forward from Q4. Do you think that's a – when you look at the sort of mix of the sales that you had in Q3, with the weather patterns and things, is there a slight chance that there has been a pull forward from sales in Q4? Thanks.

Jill McDonald
Okay, I'll take your first question. You know, our – our view on M&A is, you know, we are only interested in M&A if it fits squarely with our strategy and will help us, ideally, accelerate an existing strategy. We are very pleased with how Tredz and Wheelies have performed since – since we bought it. You know, we – we run these businesses, and the same with Boardman, actually, you know, at arm's length, you know, you're buying the management team, so you want them to go and do their thing, and you know, look for synergies, but ensure that you're not throwing the baby out with the bathwater and over-groupifying, if you like, that integration. You know, I'm – I'm very happy with the approach we've taken with Boardman actually, in the past, and now Tredz and Wheelies. And, you know, Tyres on the Drive is again different because it will continue to be run by its existing management team. We are a – you know, it's as much about the operating agreement, and we are a minority shareholder.

So I'm pleased with how we have approached integration. You know, equally, we've – you know, we've made two nice little investments and an acquisition – one in motoring, one in cycling – over the last year, and, you know, we will keep our eyes open. Never say never. But equally, I'm quite happy in the short term that we filled obvious gaps. There may be more in the future, but in the near term, I think we will sort of hold on M&A, and that is part of the, you know, rationale, alongside strong balance sheet and good cash generation and alignment with our cash allocation priorities, why we introduced a special dividend or announced a special dividend today.

In terms of pull forward to Q4, I think that that would only really happen if there was a sort of real cold snap right at the end of a quarter, which could possibly pull in from, you know, the next quarter. But we haven't particularly seen that. And it's quite in the moment, as well. If you wake up and your battery has gone, you need your battery changed. If you wake up and, you know – de-icer doesn't last that long. You need to buy some more if you've got icy windscreens, so, you know, I don't think we've seen a huge pull forward on sort of key car maintenance lines.

Adam Cochrane
Okay. And then finally, on advertising, have you seen the same amount of advertising spend in Q3 as you did this time last year?

Jill McDonald
I think it's just – it's a tiny bit more around PAC, and it's been largely on digital, rather than on TV or through other media channels, but it's not significant.

Adam Cochrane
Okay. Thank you.

Operator
The next question comes from the line of Simon Denison-Smith from Metropolis Capital. Please go ahead, your line is now open.

Jill McDonald
Hi, Simon.

Simon Denison-Smith
Morning. Hi. It feels a bit mean to be asking a question about Autocentres after such terrific results on the rest of the business, but with respect to the Autocentres business, how are you feeling about it in terms of – is it – is that -0.6% like-for-like what you kind of expected or budgeted, or are you disappointed with it? Is this an area that you're thinking is underperforming within the business?

Jill McDonald
I am a bit disappointed with it, to be honest. You know, I think we are doing all the right things. You know, when I look at the plans, you know, I think by, you know, focusing investment in areas that customers tell us are important, you know, were doing the right stuff. When I look at the long term, you know, we – we have a very small share of a large and fragmented market that is – that is growing. And, you know, I think the – the encouraging thing I'm seeing is that you know, our customer NPS scores are increasing. So, you know, that, a good indication. But, you know, in the quarter, I am a bit disappointed. It's taking longer to settle than I would have hoped.

Simon Denison-Smith
Okay. And on the sort of Internet side of things, am I right in saying that – and I'm not necessarily saying this is a negative – but the percentage collected in store has actually fallen slightly? Because I think the figures were – used to be 89 to 90%, and you gave a figure of around 80%.

Jill McDonald
Yeah. So, good spot. It is a few percentage lower in terms of click and collect. Not massively, but a few percent, and that is really because we are seeing a significant increase in the use of mobile as a way customers are shopping Halfords.com, which lends itself to greater convenience and a higher proportion of homes/work delivery sales. So we think that is largely what has driven that sort of very slight drop in the percentage of customers that are clicking and collecting online. So, you know, I think that's sort of, you know, the key explanation.

Simon Denison-Smith
Was there any – was there any positive impact from your marketplace initiative?

Jill McDonald
The key thing about marketplace is it's actually giving us early insight into, you know, new product lines and product ranges to bring – to bring in store. So it's very small. That's not nearly been driving the significant growth that we've been seeing in online.

Simon Denison-Smith
I guess PACs might have a positive impact?

Jill McDonald

PACs has a positive impact. You know, a high proportion of PACs are bought online. But we've also changed the way that we've been developing Halfords.com. So, you know, historically we would have a kind of waterfall approach to development, so that means, as I'm sure you know, you kind of hang on and then, sort of every 3 to 4 months, sort of drop a whole load of changes and improvements. We've – we've brought in some external talent on our digital team, and now we are developing a much more agile way, so that we are making lots of small improvements all the time, and those are really resonating in terms of driving conversion, as one example.

Simon Denison-Smith

Interesting. Great. Thanks guys, well done.

Operator

The next question comes from the line of Tony Shiret from Haitong Securities. Please go ahead, your line's now open.

Tony Shiret

Thank you very much. Yeah, I've got some questions on the gross margin, principally, but the first one is about Black Friday. And I wondered whether you could actually give us some idea of the sort of relative performance during Black Friday on retail like-for-like, and also what sort of gross margin achievement you made year-on-year in that period? So that's the first question. Do you want the rest now, or do you want to –

Jill McDonald

Shall I – I'll talk to Black Friday. So we're slightly different to other retailers, in that our peak is Christmas rather than Black Friday. What we did do this year was to focus a bit more online and reduce the number of offers in store, and have sort of fewer really good deals. So we actually did see good growth in sales, but also growth in margin as well. We did say that – or we did comment internally that it felt a bit like Cyber November, because you know, retailers in general, and ourselves, are keen to sort of try and, you know, take away from that real spike of Friday, where you put incredible pressure on the operation. We sort of spread the demand a few days and really the week before, with deals for customers, which really then helped us deliver well, actually, on Good Friday – Black Friday itself. Giving another little sort of highlight, we attracted the equivalent of around 5% of the total UK population to the website. So we are pleased with our performance over Black Friday, both from a sales perspective and sort of looking year-on-year at margin that you can attributed directly to the actions which we took over Black Friday.

Tony Shiret

Okay. Across the whole of the second half, though, would you say the gross margin improvement would be, you know, material in the context of the whole of the second half? Or – bearing in mind you achieved a better gross margin, and you're calling a lower gross across the second half?

Jonny Mason

We're calling a lower gross across the second half because of the FX impact.

Tony Shiret

Yeah, I know that.

Jonny Mason

But – but absent FX, it's very much in line with the previous year.

Tony Shiret

Okay. So, just – just moving on to the final couple of questions on this. You commented earlier about being sort of happy with the shape of 2017-18 – market consensus for flat PBT. What do you think, because I know you monitor this, is the consensus gross margin movement within that – that PBT movement?

Jonny Mason

The market is assessing a reduction in gross margin next year of, you know, shy of 100 basis points. 80-100 basis points, something like that.

Tony Shiret
And that's in the – the retail?

Jonny Mason
Yes. And that's – you know, that's embedded in that market consensus profitability. And that is consistent with us recovering a large part of the FX impact, but not all of it, next year.

Tony Shiret
Okay, sure. And you're – given you're happy with the flat profit, that you're happy with the – sort of consensus for the gross margin, are you?

Jonny Mason
Yeah, you know, we're not commenting on FY18 gross margin at this stage, it's a long way ahead. But overall, the general shape feels okay.

Tony Shiret
Okay, and just lastly, is there going to be any H1/H2 sort of distortion on the gross, bearing in mind there has been a sort of degree of distortion in the – in the current year?

Jonny Mason
I think that's – we haven't – were not getting into that detail at this stage in terms of FY18.

Tony Shiret
Okay. Thanks very much.

Jonny Mason
Thanks.

Operator
Just to remind all participants that if you wish to ask a question, please press 01 on your telephone keypad. We have a question from the line of Paul Rossington from HSBC. Please go ahead, your line is now open.

Paul Rossington
Good morning, everyone. Well done on a great – a great update. Just a quick question on the special dividend. 20 million for this year. Would it be reasonable to assume, given the head room in your net EBITDA targets, that we should see another special dividend of us similar quantum for next year as well? Thank you.

Jonny Mason
We will apply the same priorities for capital going forward as we've applied this year. So, it's first capex to grow the business, secondly ordinary dividend, you know, appropriate M&A consistent with the strategy, and fourthly it is extra value available for distribution to shareholders. So, you know, the reason special dividend has been triggered now is because we are done with M&A for the time being, based on the acquisitions in cycling and motoring this year. But, you know, we're not saying it's done forever. And so we will continue to consider, going forward, whether there are other appropriate M&As, or if not, whether it is appropriate to do a special dividend. So no promises, as it were. We are intending to get to our debt target, and we've made good progress this year. Progress will continue to be steady going forward.

Paul Rossington
Brilliant. Thank you very much.

Jill McDonald
Thank you.

Operator

The next question comes from the line of Georgina Johanan from JP Morgan. Please go ahead, your line is now open.

Georgina Johana

Morning guys, thanks for taking my question. A very brief one from me, and thanks for the colour that you've given on the gross margin and the potential FX impact so far. I just wondered if – in the interests of completeness, if you could just update us on the proportion that you actually are hedged for fiscal 2018 now, and potentially also share the effective rates at current spot rates? I appreciate we could probably back that out from what you've given, but just if you could clarify, it would be great. Thanks.

Jonny Mason

No problem, makes it easier. You know, as we said before, we operate a rolling 18-month hedge. It clicks one month ahead every month, as it were. We are currently hedged just under half for FY18, and, and that works out at a rate of just over 1.30.

Georgina Johana

And just a reminder of what the effective rate was for last – for fiscal 2017, or will be for fiscal 2017?

Jonny Mason

Just over 1.40.

Georgina Johana

Great. Thank you very much.

Jonny Mason

Yeah.

Jill McDonald

Thank you.

Operator

The next question comes from the line of Mike Dennis from Lazarus Research. Please go ahead, your line is now open.

Mike Dennis

Yes, hello. Just a quick question from me. In terms of motoring and car maintenance and travel, could you remind us of what your market share is in those segments, and are you the market leader in those segments as well, or is there someone else who has a greater share? Thanks.

Jill McDonald

Yeah, so, I mean, the context of the motoring market is, you know, it's a very big market. And, you know, we look at it in sort of two areas. One is the aftercare market, and the second is the sort of car parts, consumables, accessories and tech sort of areas. So in that latter market, we hold around 15% of market share. And in the aftercare market, which is extremely fragmented, it's around 1.5% market share.

Mike Dennis

Right. So, in the – in one part, you've actually got a significant amount of leverage. In terms of travel, though, you also must have quite a bit of leverage in that area as well?

Jill McDonald

Well, when we look at the markets in which we operate, you know, we do see all of them in, you know, steady growth, with the number of cars that – new cars that are being bought is growing, and that obviously feeds through into a pipeline of cars that need – you know, need work doing on them, or need their bulbs, blades or batteries being changed. So it's very fragmented in terms of, you know, breaking down, you know, our position in every single market. Just to give you some examples, in child seats, we are actually the market leader in child seats, and we've been really focusing on that being an area of growth. You know, we are also, you know, one of the only places where you can go and drop in without an appointment and have roof boxes or cycle carriers fitted, so that is a growing and strong part of our business. So there's lots of different areas within the sort of two big lumps of overall market that we are strong in, and we see areas for future growth, both in terms of aftercare but also in terms of the car parts and travel accessories. You know, we have a huge number of different competitors, not one, so it's a bit difficult to sort of give a one headline answer to that question.

Mike Dennis
Okay, thank you very much.

Jill McDonald
Thank you.

Operator
Once again, if you do have a question, please press 01 on your telephone keypad now. As there appear to be no further questions, I will return the conference to the speakers.

Jill McDonald
Great. Thank you very much indeed. Lots of good questions, so thank you very much, and have a good day.

Jonny Mason
Goodbye.

Operator
This now concludes our conference call. Thank you all for attending, you may now disconnect your lines.