

A person wearing a blue long-sleeved shirt, black shorts, and a white helmet is riding a mountain bike through a shallow stream. The rider is splashing water, and the scene is set in a rugged, mountainous landscape under a bright blue sky with a sun flare. The background shows rocky terrain and distant mountain peaks.

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Interim Results 26 Weeks to 30<sup>th</sup> September  
2011

City Presentation  
10<sup>th</sup> November 2011



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**David Wild**

Chief Executive Officer

**Introduction**

# Agenda

- Introduction - David Wild
- Financials - Andrew Findlay
- Business Update - David Wild
- Trading Initiatives and Summary - David Wild
- Questions

# Overview of Results

## Performance in line with expectations

- Group Revenue flat in tough environment
- Gross Margin % down as expected
- Costs well controlled
- Balance sheet strong – buy-back continues, dividends maintained
- Encouraging progress in Autocentres

**Andrew Findlay**

Finance Director

# Financials

# Financial Headlines

- Flat underlying Group revenue of £454.0m<sup>1</sup>
- Retail gross margin 52.7%<sup>1</sup> (H1 11: 54.0%)
- Profit before tax of £54.7m, down 20.4%
- Adjusted basic EPS<sup>2</sup> of 19.8p, a decline of 17.8%
- Effective tax rate 26.9%
- Net debt £140.7m
- Interim dividend of 8.0p per share maintained

**Group revenues flat despite a challenging environment**

## Notes

All numbers shown are before non-recurring items.

1. Excludes Central Europe

2. Adjusted basic EPS is defined as basic earnings per share before non-recurring items

# Retail UK/ROI Performance

	H1 12 £m	H1 11 £m	Growth %
Revenue	400.6	405.4	-1.2%
Gross profit	211.0	218.7	-3.5%
<i>Gross margin %</i>	<b>52.7%</b>	<b>53.9%</b>	<b>-128bps</b>
Net operating expenses	(156.0)	(153.1)	+1.9%
Operating profit	55.0	65.6	-16.2%
<i>Operating profit %</i>	<b>13.7%</b>	<b>16.2%</b>	

**Focusing on cash returns**

# Retail Margin % Influences

- Increased promotional participation
- Additional sales of lower-margin product ranges
- Input-cost inflation

## Offset By:

- Sourcing strategy
- Fitting penetration & attachment rates
- Own-brand leverage

**Focusing on cash returns**



# Retail UK/ROI Operating Costs

	H1 12 £m	H1 11 £m	Growth %
Store Staffing	39.8	39.7	+0.2%
Store Occupancy	70.9	68.6	+3.4%
Warehouse & Distribution	13.4	14.6	-8.4%
Support Costs	31.8	30.2	+5.4%
<b>Total</b>	<b>156.0</b>	<b>153.1</b>	<b>+1.9%</b>
Dep'n/Amort'n/Impairment	10.9	10.7	

**Continuing focus on  
cost control**

*Note: Depreciation, Amortisation and Impairment charge relates to intangible assets and Property/Plant and Equipment*

# Inventories

	£m
Opening Stock	144.6
Inflation	2%
Tent packs	1%
Winter build	1%
Other	1%
Closing Stock	152.0
% Change	+5.1%

- Underlying cost-price increases
- Hold over of tent packs
- Winter build and new ranges
- Improved availability
- Build of cycle ranges ahead of Christmas

**Increased availability in key seasonal lines**

# Autocentres Performance

	H1 12 £m	H1 11 £m	Growth %
Revenue	53.4	49.1	+8.8%
Gross profit	35.5	32.4	+9.6%
<i>Gross margin %</i>	66.5%	66.1%	<i>+36bps</i>
Net operating expenses	(32.5)	(27.6)	+17.8%
Operating profit	3.0	4.8	-37.5%
<i>Operating profit %</i>	5.6%	9.8%	

**Investment to provide support for  
future expansion**

Note: Revenue includes LFL growth of +2.7% (H1 11 -0.8%)

# Capital Expenditure

	H1 12	H1 11
	£m	£m
Total Retail portfolio	5.0	2.4
Logistics	0.5	2.1
Infrastructure systems	1.2	2.1
<b>Total Retail</b>	<b>6.7</b>	<b>6.8</b>
Autocentres	1.6	1.1
<b>Total Group Capital Expenditure</b>	<b>8.3</b>	<b>7.9</b>

**Group has a low capital expenditure requirement**

# Cash Flow and Net Debt

Operating Cash Flow		Free Cash Flow		Net Debt	
	£m		£m		£m
Operating profit	56.9	Op. cashflow	65.6	Net debt 1.4.11	(103.2)
Dep/Amortisation	13.1	Capex	(8.6)	Free cash flow	40.4
Employee share scheme	1.2	Net finance costs	(2.2)	Lease/Other	(0.4)
Working capital	(3.1)	Taxation	(14.4)	Shares	(49.0)
Provisions/Other	(2.5)			Dividends	(28.5)
<b>Op Cash Flow</b>	<b>65.6</b>	<b>Free Cash Flow</b>	<b>40.4</b>	<b>Net Debt 30.09.11</b>	<b>(140.7)</b>

## Share Buyback

- Buyback commenced 7 April
- 14.7m shares purchased by 7 November
- Average price 350p
- Earnings enhancing

*Note: Net Debt includes Head Office finance leases of £11.7m (2011 £11.9m)*



# FY12 Guidance

- Full-year Retail gross margin down by at least 100bps
- Retail operating costs up c.4%
- Retail capex of around £20m
- Autocentres capex of up to £5m
- A Group interest charge of c.£6m



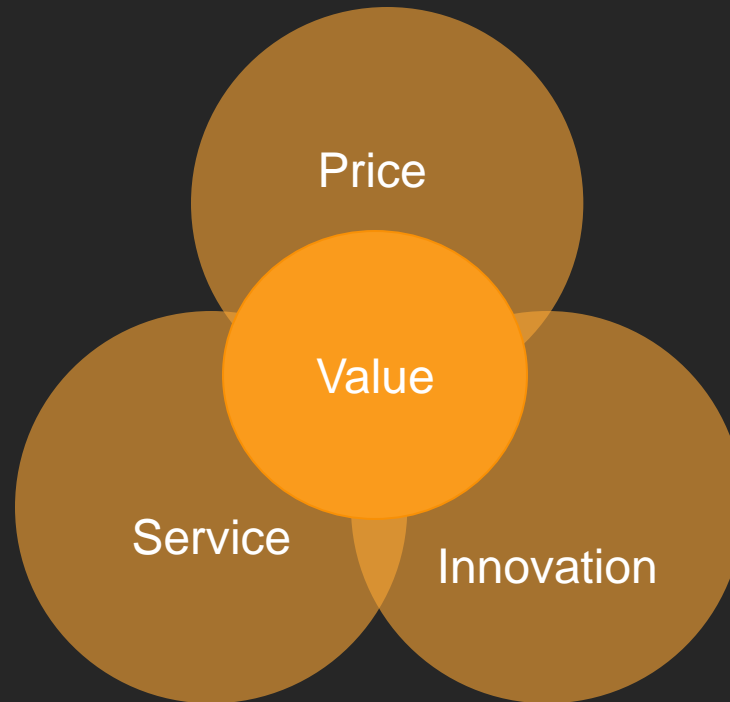
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**David Wild**  
Chief Executive

# Business Update

# Value Proposition

**Tough environment for customers**



**Creating value for our customers**

# Retail Strategy

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Consistent and effective strategy for managing the business

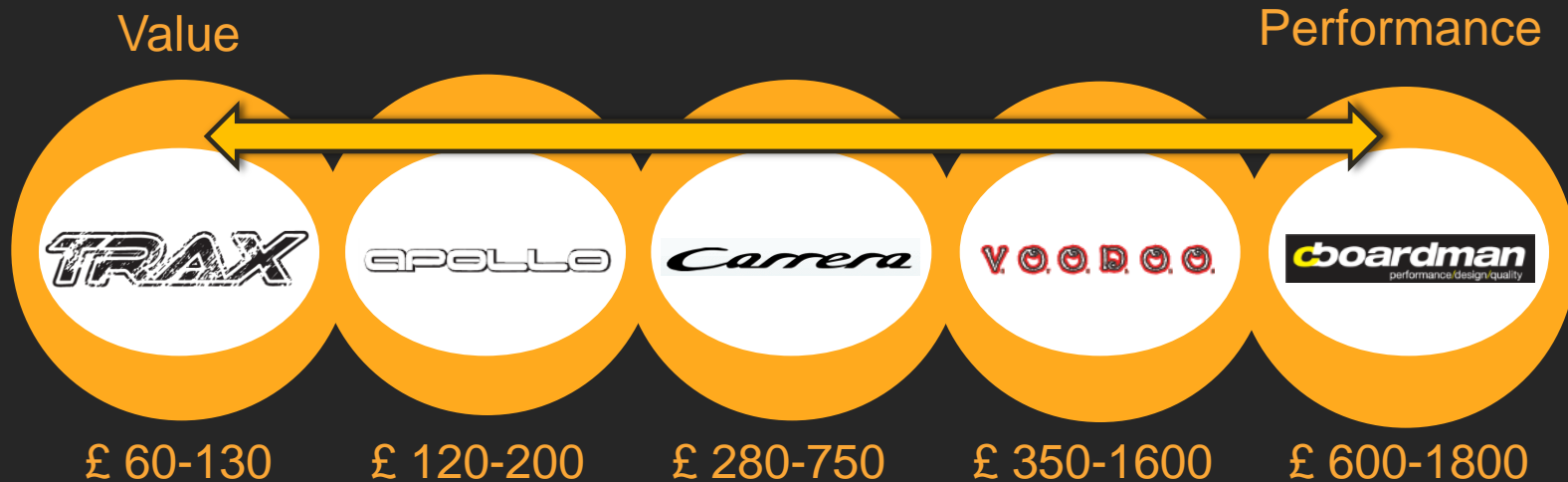
**Extending range  
and service advantage**

**Investing in store portfolio**

**Ongoing focus on  
cost control**

**Leveraging the Halfords  
brand in multi-channel**

# Range - Value Through Brands



- Launch of new premium range of Carrera
- Strong sales of family range Apollo
- Entry price Trax performed well
- Growth in Cycle Accessories
- New Apollo kids range for Christmas

Extending range  
and service advantage





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# In-store Services

Extending range  
and service advantage

# Value Through Service

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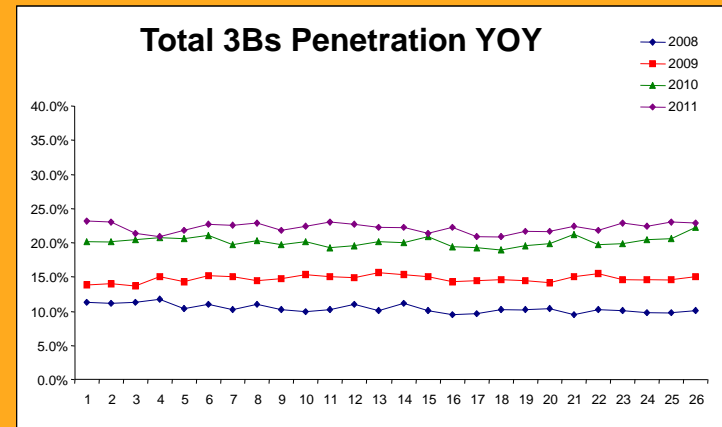
## Central to Halfords proposition

- Expert advice and information
- Products lend themselves to added-value services
- Competitive strength vs online

## Growth in revenue

- Fitting up
- Increased level of attachment

## New customer feedback link



Extending range  
and service advantage

The image shows the interior of a Halfords store, which is a bicycle and cycling equipment retailer. The store is well-lit with overhead fluorescent lights. In the foreground, several bicycles are displayed on racks, with price tags and promotional signs. One sign prominently features a 50% discount. In the background, more bicycles are visible, along with clothing racks and a sign for 'BIKEHUT'. A yellow sign on the right side of the store advertises an 'Elber Fitness Trainer' for £179.99. The overall atmosphere is clean and organized, typical of a large retail store.

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# Investing in the Store Portfolio

Investing in the store portfolio



# Value From Store Portfolio

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## Refresh and reconfiguration

- Categories rebalanced and easier to shop
- 53 stores completed in H1
- 25-30 targeted in H2
- Low cost and short payback

## Downsizing

## London stores



Investing in the  
store portfolio

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# Cost Control

Ongoing focus on  
cost control



# Value Through Cost Control

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- Strong cost-control culture in Halfords
- Procurement disciplines
- W&D efficiency programme delivering expected savings
- Store payroll flat - fitting and service improve
- Priority on occupancy costs



Ongoing focus on  
cost control

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# Leveraging brand in Multi-channel

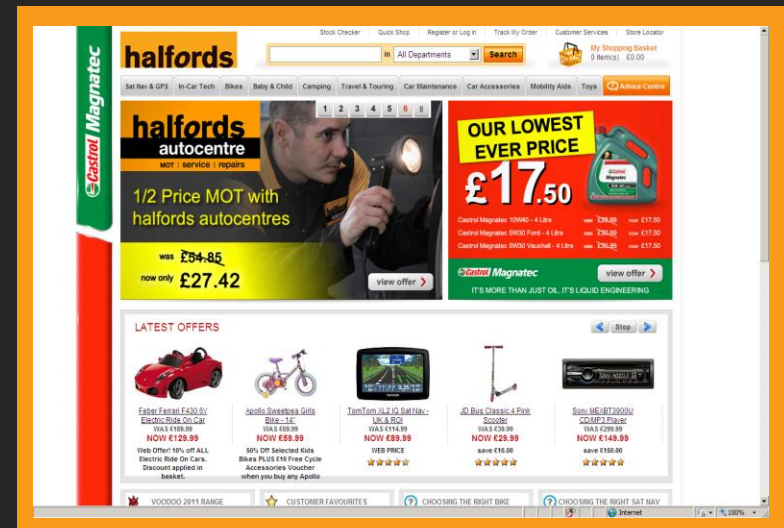
Leveraging Halfords  
brand in multi-channel

# Creating Value Online

- Online penetration 8.6% and 21.8m visitors in H1
- True multi-channel retailer – 87% store collected
- Rebalancing promotional activity

## Online Development

- Mobile optimised site
- Shopping app launched
- Re-platformed site



Leveraging Halfords brand in multi-channel

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# Halfords Autocentres

# Autocentres

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## Range and service

- Growth in tyre sales
- Launch of Brakes4Life

**brakes4life**

## Investment now to deliver future growth

## Maintaining low costs

Growing range and  
service  
Advantage

Investing in new  
Centres

Maintaining low  
cost structure

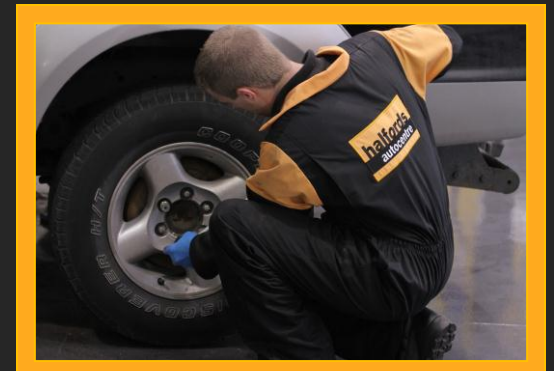


# Autocentres Leveraging Halfords Brand

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## Halfords brand gaining traction in aftercare market

- First above the line media campaign
- Grown online bookings by 64%
- Increasing brand awareness 16% to 33%
- Active customer retention and acquisition programme



Leveraging the  
Halfords brand

A photograph of two children riding bicycles on a gravel path through a forest. The child in the foreground is a girl with long dark hair, wearing a red long-sleeved shirt, blue jeans, and a white helmet. She is riding a red bicycle. The child in the background is a boy wearing a black t-shirt, black pants, and a green helmet, riding a black bicycle. The path is made of light-colored gravel and is flanked by tall, thin trees. The sky is blue with some clouds. In the top right corner, there is an orange banner with the text "that's helpful that's halfords" in white and black.

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# Trading Initiatives and Summary

# Trading Initiatives

## Strong programme of sales activity

3Bs Radio Campaign



Oil

OUR LOWEST EVER PRICE

**£17.50**

Castrol Magnatec 10W40 - 4 Litre	was £28.99	now £17.50
Castrol Magnatec 5W30 Ford - 4 Litre	was £36.99	now £17.50
Castrol Magnatec 5W30 Vauxhall - 4 Litre	was £36.99	now £17.50

**Castrol Magnatec** [view offer >](#)

IT'S MORE THAN JUST OIL. IT'S LIQUID ENGINEERING



Top Gear Sat Nav



Christmas Bikes





# Christmas Advert

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# Summary

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Good progress in a tough consumer environment

- Group revenue flat
- No change to full-year guidance
- Good cash generation – interim dividend maintained
- Set up for Christmas and Winter campaign
- Autocentres avenue for future growth

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**Questions**

# Appendices

- UK/ROI Retail sales
- Group income statement
- Group components
- Retail revenue bridge
- Balance sheet
- Retail store portfolio
- Autocentres portfolio



# UK/ROI Retail Sales

## LFLs by Category

Car Maintenance

Car Enhancement

Leisure

Total LFLs

H1 12	H1 11
-3.1%	+0.9%
-9.8%	-11.4%
+3.9%	-2.1%
-1.9%	-4.9%

## Sales by Category

Car Maintenance

Car Enhancement

Leisure

H1 12	H1 11
26.3%	26.6%
26.4%	28.6%
47.3%	44.8%

**Strong cycling sales underpin  
Leisure outperformance**

*Note: All figures are at constant currency and exclude Central Europe*

# Group Income Statement

Excluding non-recurring items	H1 12 £m	H1 11 £m	Growth %
<b>Revenue</b>	454.0	456.3	-0.5%
<b>Gross profit</b>	246.5	251.1	-1.8%
<b>Net operating expenses</b>	(189.6)	(182.0)	+4.2%
<b>Operating profit</b>	56.9	69.1	-17.7%
<b><i>Operating profit %</i></b>	<b>12.5%</b>	<b>15.1%</b>	<b>-260bps</b>
<b>Net finance costs</b>	(2.2)	(0.4)	+450%
<b>Profit before tax</b>	54.7	68.7	-20.4%
<b>Basic Earnings Per Share</b>	19.8p	24.1p	-17.8%
<b>Effective Tax Rate</b>	26.9%	26.3%	

All numbers shown are before non-recurring items

# Group Components

## FY12 H1

	UK/ROI £m	Central Europe £m	Total Retail £m	Auto Centres £m	Amortis- ation* £m	Group £m
Revenue	400.6	-	400.6	53.4	-	454.0
Gross profit	211.0	-	211.0	35.5	-	246.5
Net operating expenses	(156.0)	-	(156.0)	(32.5)	(1.1)	(189.6)
Operating profit	55.0	(0.0)	55.0	3.0	(1.1)	56.9

## FY11 H1

	UK/ROI £m	Central Europe £m	Total Retail £m	Auto Centres £m	Amortis- ation* £m	Group £m
Revenue	405.4	1.9	407.3	49.1	-	456.4
Gross profit	218.7	0.1	218.8	32.4	-	251.1
Net operating expenses	(153.1)	(0.3)	(153.4)	(27.6)	(1.1)	(182.0)
Operating profit	65.6	(0.2)	65.4	4.8	(1.1)	69.1

\*Reflects amortisation charge arising on the acquisition of Nationwide Autocentres

# Retail Revenue Bridge

	H1 12 %
Underlying LFL sales growth	-2.5
Easter adjustment	+0.6
<b>Reported LFL sales growth</b>	<b>-1.9</b>
Currency <sup>1</sup>	+0.2
Net new space	+0.1
<b>Retail sales growth</b>	<b>-1.6</b>
Central Europe impact	+0.4
<b>UK/ROI Sales Growth<sup>2</sup></b>	<b>-1.2</b>

## Notes

1. Translation of non-sterling denominated revenues.
2. Excludes Central Europe

# Group Balance Sheet

	H1 12 £m	H1 11 £m	YOY £m	Growth %
Goodwill and intangible assets	345.7	348.9	-3.2	-0.1%
Property, plant and equipment	98.5	98.2	+0.3	+0.3%
Derivative financial instruments <sup>1</sup>	(2.1)	(0.9)	-1.2	+133%
Net working capital	50.0	36.0	+14.0	+38.9%
Net debt	(140.7)	(109.8)	-30.9	+28.1%
Other creditors <sup>2</sup>	(67.0)	(69.2)	+2.2	+3.2%
<b>Net assets</b>	<b>284.4</b>	<b>303.2</b>	<b>-18.8</b>	<b>-6.2%</b>
<b>Inventories</b>	<b>153.3</b>	<b>145.9</b>	<b>+7.4</b>	<b>+5.1%</b>

Notes:

1. Foreign currency contracts.
2. Tax liabilities, provisions and lease incentives.

# Retail Portfolio by Store Type

<b>Retail Space</b> 3,850,139 ft <sup>2</sup>	<b>Mezzanine</b>	<b>Flat</b>	<b>Compact</b>	<b>Metro*</b>	<b>Bikehut</b>	<b>Total</b>
<b>Opening Number</b>	243	159	29	34	1	466
<b>New Store</b>	0	0	0	1	0	1
<b>Relocations</b>	0	1	0	0	0	1
<b>Closures</b>	1	0	0	0	1	2
<b>Closing Number</b>	242	160	29	35	0	466

\* Includes new London stores

# Autocentres Portfolio

	No. of Centres
<b>March 2010</b>	224
Opened	16*
<b>March 2011</b>	240
Opened	6
<b>Sep 2011</b>	246

\*1 centre relocated