Halfords Group plc

Halfords Group plc - FY26 Full Year Results

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Transcript



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Henry Birch: Welcome to the Halford Group Results for the 53 weeks ending the 3rd of April, 2026. I'm Henry Birch, the Chief Executive Officer of Halfords and joining me today is Jo Hartley, our Chief Financial Officer. In terms of today's presentation, I wanted to start with some initial reflections on the year. We'll then take you through progress on our strategy. Jo will take you through the detail of our financial results. I'll then give you an overview of current trading and our outlook and we'll close today's session with the opportunity for Q&A. So starting with some reflections on FY26, I'm really pleased to be announcing a very strong set of results. We have delivered strong like-for-like sales growth at 4.8%. We've grown our gross margin rate to its highest level in a decade at 52.8%. Our underlying PBT performance is at the top end of consensus forecasts. And we've delivered another impressive cash performance with strong free cashflow, net cash on our balance sheet and an increase in our dividend. We have also seen the momentum of FY26 carry over into the current year with strong trading in April, May and June, resulting in us guiding to the top end of analyst consensus for FY27.

If we look at the wider context, FY26 was a year in which we re-focused the business and re-set our agenda for the years ahead. We have made a number of key hires into our leadership team. I joined the business about 14 months ago. Adam Pay joined as Managing Director of Garages. Jess Frame joined as managing director of retail. And more recently, Sarah Hayward joined as our CIO. In November, we laid out a strategic framework with three sequential phases of Optimise, Evolve and Scale. While it's early days, we have made great progress in the Optimise phase of our plan so far, with a laser focus on execution, cutting out noise and demonstrating tangible progress. And this progress has played a part in delivering the strong financial performance we are reporting today. We feel passionately that as a specialist retailer and services provider, it is the advice and service advantage which our colleagues bring, which gives us a competitive advantage that others can't match. It was important to me that this was reflected in our purpose, and I wanted to share a short film that we made to launch this new purpose to our colleagues.

Video: [Video Plays]

Henry Birch: As I said, that purpose - "We keep the nation moving, with trusted experts who love to help." - encapsulates Halfords but also articulates our competitive advantage as a specialist retailer and services provider. So now turning to the strategic progress we've made as we've started to deliver the Optimise phase of our "Fit for the Future" plan. And I'm very pleased with what we've achieved so far. To my mind, the potential of Halfords has never been in doubt, but we have not always fulfilled that potential. Driving some of our strategic focus has been an element of self-reflection and candour as

to what we have failed to do in the past. What we dubbed home truths. We laid these out in November of last year and I won't dwell on them now, but they have both guided our strategy and sharpened the outcomes we are looking to achieve. We are also clear on the need for discipline as to how we deploy capital and have articulated our clear guardrails for the business. I am pleased that we have made good progress with these outcomes, driving sales, margin, profit and our returns on capital, whilst remaining firmly within our guardrails. And we have every intention and confidence that we will continue to drive that performance and that discipline.

We have been clear that our Optimise programme touches every part of the business and we revisit here some of our priority workstreams. All of these are underway but, as you would expect, they are at different stages of progress and maturity. Today we will focus predominantly on the improvements we have delivered in our Garages business, both through Fusion and in the rest of the estate, which have improved utilisation and, consequently, operating margin in the Autocentres segment. In Retail, we have spent the last few months focusing on laying the foundations for our new category management approach and are deploying a "test and learn" approach across a select few categories ahead of a scaled rollout later in FY27. As such, our interims presentation in November will focus more on the Retail aspects of our Optimise plan. And, across the group, we're investing in digital and AI, in our brand and our loyalty proposition.

So, starting with Retail and category management. Category management is by no means a new concept in retail, but it is worth pausing and explaining exactly what it entails and why, as an approach, it is relevant for Halfords. In recent history, Halfords has been set up more with a buyer-led model. Under our new approach, a category manager has end-to-end responsibility for their category, sitting over: range selection, pricing, promotions, supplier relationships, channel strategy and sales and margin performance. It demands a focus on customer and competitor insight, and it is an approach I saw yield real benefits in my previous business. Our emphasis in the last few months has been on making sure we have the right structure and capability to deliver this new model, and I'm confident that we now have the right team in place. We have also relaunched four important categories (workshop, car cleaning, flagship cycling and cycling parts and accessories (PACS)) and are trialling a range of in-store and digital innovations designed to improve customer journeys for these products. Taking workshop as an example, workshop is a category which incorporates tools, cabinets, workstations and the like and serves both trade customers and auto enthusiasts. We see an opportunity both in better targeting of trade customers and developing our product range, particularly at the advanced and professional end of things. And we also believe we can drive sales by better articulating feature benefits and improving how we lay out and sell product both in-store and online. We are early in our category management

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journey - and given the extent of change required, from range review all the way through to the product arriving on shelves - implementing our new approach in a single category can take around 9 months. We look forward to providing a more detailed update in November and expect to see the benefits materialising in the second half of the year.

I wanted to take the opportunity to talk a bit more about Cycling, which is something we haven't done for a while! But Cycling was a particular bright spot for the Group in terms of sales growth in FY26, with the market showing good signs of recovery and the Halfords and Tredz proposition driving share growth against that backdrop. As we've talked about before, we are the clear market leader in cycling. More than half of all bikes sold in the UK come from Halfords, we operate the nation's biggest network of cycling showrooms, and we also operate the largest cycle to work scheme nationally. Our growth in Motoring means that Cycling now generates a smaller proportion of Group sales – around 20% - but it remains core to our business and an important source of profitable growth in the years ahead. Under the leadership of a new Cycling Director, we are bringing our Halfords and Tredz businesses closer together, starting with offering click and collect for Tredz performance cycling products through a small number of Halfords stores. We are also trialling a new flagship cycling concept in 19 stores, incorporating locally curated ranges, improved layouts and labelling, and enhanced technical training for colleagues. It is worth reiterating that we don't just sell bikes: we design and build them. Consequently, Halfords cycling has very high own-brand penetration through the likes of Apollo, Carrera and Boardman. Just a few weeks ago we sold our millionth Carrera Vengeance, making it the UK's best-selling bike of all time. And our Boardman range continues to win accolades and awards for delivering premium bikes at more affordable prices. Looking ahead to FY27, we are particularly excited by the arrival of our new e-bike ranges, which I saw earlier this week. I have to say they are amazing and a massive step up from the previous range in terms performance and styling but at a similar price point to the old range. We see significant potential in growing e-bikes, where our share currently under-indexes vs our wider bike share. And we also look forward to working more closely with the Bicycle Association on their "E-bike Positive" quality and safety accreditation across our range.

So now turning to garages. On the garages side of our business, Fusion has been a well-documented success, driving both profit growth and improved customer and colleague experience. We have a well-rehearsed formula that has delivered consistent returns and when we complete the programme at the end of this year, we expect to have converted 138 garages to our Fusion concept. But our garage improvement programme doesn't stop with Fusion and there are opportunities to drive performance across the rest of our garage estate. Fusion is giving us a huge amount of experience and data to inform how we can put capital to work effectively and efficiently in our

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physical estate. We are confident that in future years we can take the strongest elements of the Fusion programme and roll them out at much lower cost across the rest of our estate while still driving good returns and remaining within our capital guardrails. In addition ,investment in new equipment and technology and in skills and leadership help underpin sustained and attractive growth in our garage business.

We're already starting to see some of this through the operational improvements we've been making to drive improved utilisation across all 500 of our garages over the last year. Utilisation is ultimately about matching demand with labour and hours worked, and we've been laser focused in regularly reviewing productivity on the individual garage level to redeploy technicians to the locations where they can best support growth in sales. The chart here shows year on year progress for both Q1 and Q4, looking at the cost of labour as a percentage of sales, the number of hours worked and overall sales. In Q1 we obviously faced the immediate impact of national insurance and minimum wage hikes, but by Q4 - even with these cost increases - we had reduced year on year the cost of labour as a percentage of sales, a key utilisation metric. Our consumer garages grew like for like sales by more than 8% in FY26, supported by an increase in additional work identified and higher income per tyre, due in part to our new Hunter wheel alignment technology. While the tyre market continued to decline in FY26, it showed some signs of stabilisation towards the end of the year and the investments we are making in garage leadership and more modern equipment are allowing us to outperform the wider market. And at the same time as driving increased sales and profitability, we are also seeing really positive feedback from our customers. Our lifetime Google score has increased from 3.9 to a very credible 4.5, with our weekly averages surpassing this level. I appreciate that some of this can seem quite abstract, so I wanted to share a short video featuring Adam and some of his team lifting the lid on all the great work going on across our garage network.

Video: [Video Plays]

Henry Birch: Brilliant. Finally, I wanted to turn to our optimise programme relating to Group wide initiatives. Last year I highlighted that I see digital both as an area where we need to improve our offer, but also one which offers significant growth potential. To enable both these aspects, we have been making some foundational improvements and changes. Much of this relates to site performance and architecture. Those changes have resulted in a faster site, with customer journeys with less friction and better conversion. Pleasingly, sales growth via our digital channel was ahead of the wider Group. But there is more to do and the year ahead will see greater focus on how we trade online and how we manage our channel strategy for each category. And alongside the focus on digital, we are acutely aware that customers are changing the way they discover, search and buy products and services by

using AI. And we are already seeing that, where customers do come to us through AI rather than standard search, we get much higher rates of conversion. We are excited about how AI can help significantly grow our top line, improve customer experience and journeys, and allow us to work more effectively and efficiently. That has meant investing and making changes to optimise our offer for AI across all parts of the business, building new capability and partnering with third parties. In that regard, we were pleased to be one of the first retailers to participate in early-stage ChatGPT advertising trials.

Finally, in FY26 we started a trial to invest more in our brand marketing. Research shows us that whilst our brand awareness is around 80%, far fewer customers are aware of exactly what we offer, impacting consideration. In the second half of FY26, we ran localised trials increasing our above-the-line marketing. This yielded positive results, improving customer numbers and brand perception and consideration, and has given us the data to invest more with a good degree of confidence in the returns. We have this budgeted and in play for FY27.Another important tool we have at our disposal is Halfords Motoring Club, which now has around 6.5 million members in total, 420 thousand of whom are subscription-paying, Premium members. Club members are typically more engaged customers who spend more with us, more consistently. So, as you can see, as well as making improvements in each of our business divisions, we're building strength and value in the overall Halfords proposition. Our garages business is much stronger alongside our retail business and vice versa, and there is more here we can and will do to drive that value. But I now wanted to hand over to Jo to talk through the detail of our financial performance.

Jo Hartley: Thank you, Henry. Before I get into the detail of our financial performance for FY26, a few words on the basis of preparation as detailed on this slide. Firstly, a reminder that FY26 was a 53 week year. The numbers that follow are all on a 52 week basis to aid comparability. Secondly, we have made a change to the treatment of amortisation of intangible assets arising on historical acquisitions. These are now taken below the line as a non-underlying item. This change of accounting treatment has allowed us to reduce and simplify the profit metrics we report. We have restated our prior year comparatives accordingly, and as a result, underlying PBT increases by £3.9m in FY26 and £5.2m in FY25. There are no changes to our statutory profit measures, and a full reconciliation of our P&L before and after the change is included as an annex to this presentation.

With the accounting matters covered, I'll now take you through our FY26 financial performance. And as you can see on this slide, we delivered a very strong set of results. Like for like sales grew 4.8% reflecting building momentum across both retail and garages and continued progress from our optimised initiatives. Gross margin increased by 210 basis points to 52.8%,

the highest level we've delivered in more than a decade. Underlying PBT increased 4.1% to 45.4 million or 41.5 million before our accounting policy change. This was ahead of market expectations despite significant inflationary headwinds. Return on capital grew by 160 basis points year on year to 14.2%, which is above our cost of capital, demonstrating that our investments are delivering stronger returns and we continue to generate cash and maintain balance sheet strength ending the year with a net cash position. Free cash flow of 25.3 million was very strong, slightly lower than the previous year only as a result of the payment in the year of the reinstated FY25 colleague bonus and receipt of a tax refund in the prior year. Finally, in light of our strong performance and confidence looking forward, we recommend an increase in the full year dividend to nine pence per share. Overall, these results give us confidence that the optimised phase of our strategy is beginning to deliver as intended.

Turning now to a brief overview of profit performance, which I will cover in more detail later in the presentation. Revenue increased 2.9% to £1.76 billion, with stronger like-for-like growth of 4.8% reflecting the impact of previously announced garage closures. Gross margin increased materially to 52.8% for reasons I will describe shortly, and together these things were enough to offset a 7.6% increase in operating costs. Cost growth in the year primarily reflected material inflationary pressures from National Insurance and National Living Wage changes effective at the start of the year. Furthermore, in light of strong trading performance, we chose to make targeted investments in technology, capability and brand, which were partly mitigated by strong operating cost control. And as a result of all these dynamics, underlying PBT increased 4.1% to £45.4 million. It is worth noting that without the change in accounting policy, underlying PBT would have increased 8.1% to £41.5m, slightly above the consensus range of £40.3m to £41.4m. Below the line, non-underlying items fell significantly year on year, with the FY26 charge mostly comprising costs relating to the Warehouse Management System implementation in the first half of the year, alongside the amortisation now treated as non-underlying. The significant charges last year were predominantly non-cash impairments of historical goodwill. Statutory PBT for the 52-week period was £39 million, up £69 million year on year.

This slide bridges underlying PBT between FY25 and FY26 and illustrates how we managed substantial inflationary pressures while still growing profitability. In addition to the labour cost increases already described, we saw inflation across property, technology and operating costs as third parties sought to pass on labour inflation through managed services contracts. In total we saw more than £40m of inflation in the year. Against that backdrop, we delivered a strong trading performance with robust sales growth and further gross margin expansion, in part due to Better Buying but also supported by tailwinds from FX. Costs continued to be well managed, with

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garage productivity improvements and our Goods not for resale cost reduction programme delivering significant savings. And garage initiatives including Fusion and the garage closure programme also materially improved profit year on year. All of which meant that we were able to continue investing in priority areas as already noted, helping to drive momentum into FY27. Henry will cover the outlook in more detail later in the presentation – but it's worth noting that as we look forward, we anticipate materially lower inflationary headwinds. Wage growth has eased, business rates are falling, and while we are seeing some inflation in fuel costs because of the recent conflict in the Middle East, our energy costs are fully hedged at broadly similar rates to FY26.

As we have seen, gross margin expansion was key to offsetting material inflation during the period. This chart describes the drivers of the 210bps improvement in FY26. The largest contributor continued to be Better Buying, where our scale, sourcing capability and supplier relationships delivered further gains in both Retail and Garages. More effective pricing and promotional activity also drove significant margin accretion, with a more data-driven approach protecting margin while ensuring we remained competitive for customers. And finally, we benefited from a more favourable USD rate on the 220m of dollar denominated product we buy each year, with the hedged rate coming through cost of goods sold at $1.29 vs $1.24 in FY25. Over the last 2 years we have grown gross margin by 460bps and reach the highest level seen in a decade, predominantly driven by our better buying programme and price and promotion optimisation. Looking forward, we don't expect further margin expansion to continue at the rate we have seen over the last couple of years, albeit we continue to project fx tailwinds in the year ahead based on our hedging programme.

Turning now to the Retail segment. Here we saw a strong performance in FY26, with like-for-like sales growth of 4.1%. Cycling was particularly encouraging, with like for like growth of 6.4% supported by market recovery, volume share gains and strong performance in premium and e-bike categories. Motoring also saw like for like growth of 2.9%, despite range simplification in some lower margin areas which reduced trading volumes. Our full year performance was particularly pleasing given H1 like for like growth of 1.1%, reflecting strong trading momentum through the second half which has continued in the early part of this year. Gross margin increased 160 basis points to 50.9%, driven by the factors described on the previous slide, and operating costs increased as expected, reflecting labour inflation alongside targeted investment in digital, capability and brand. As a result, underlying operating profit was modestly lower year on year at £37.5 million. We have seen a strong trading performance in our Retail business since the start of the new financial year, and are confident that investments we have made, alongside the rollout of our category management approach, will bring further momentum to our retail business in FY27 and beyond.

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Meanwhile, the Autocentres business delivered another very strong year. Revenue, excluding Avayler, increased 2.2% to £723 million. In FY26 we closed 43 underperforming garages, which supressed sales growth but added £1m to underlying profit. On a like for like basis, sales grew 5.8% supported by robust consumer demand for services, maintenance and repair work alongside stronger attachment rates for additional services such as wheel balancing and alignment on tyre sales. These factors, together with our better buying programme, also contributed to a 250 basis point improvement in gross margin to 55.6%. Labour cost inflation impacted our garages as well as our retail business but was partially offset by pricing and initiatives to drive improved utilisation across our network as Henry has already described. And other garage optimisation initiatives including Fusion and garage closures further supported the very strong performance, with underlying operating profit, excluding Avayler, increasing by more than 20% to £22.3m. This represented a 50bps increase in operating margin to 3.1%. This early proof point gives confidence that our optimise strategy will drive significant margin expansion in this segment in the years ahead. And finally, a word on Avayler. During FY26 we continued to progress development of the software for Bridgestone in the US and MyCar in Australia ahead of full rollout. Losses widened year on year as anticipated following the loss of revenue from ATD which went into Chapter 11 in the second half of FY25.

Balance sheet discipline and cash generation remain central to our strategy. At the year end, the Group held net cash of £19.1 million on a 53-week basis. Inventory increased modestly year on year, reflecting a planned stock build ahead of the summer cycling season. Capex for the 53-week period, was £58.1 million, within our annual cash investment envelope of £55m to £65m.Importantly, we generated a free cash inflow of £33.3m or £25.3 million on a 52 week basis, while also funding investment in Fusion, technology and capability building. Including lease liabilities, year-end net debt fell to £228.7 million, meaning lease adjusted leverage is 1.2x. We continue to maintain a flexible portfolio with average retail lease lengths of just over 2 years and average garage lease lengths of around 4 years. And during the year we also extended our £180m revolving credit facility through to April 2029, further strengthening our financial flexibility. Overall, we remain focused on maintaining a prudent balance sheet while continuing to invest selectively where we see attractive returns.

Our capital allocation priorities remain unchanged from November and continue to provide a clear framework for disciplined decision making. First, we will maintain a prudent balance sheet, operating well within our leverage guardrail of less than 0.8 times EBITDA excluding lease debt. Second, we will continue to invest in growth opportunities where we see strong returns and strategic value. Third, we remain committed to a sustainable dividend policy, targeting cover of between one and a half and two and a half times underlying profit after tax. Fourth, while M&A remains part of the longer-

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term Scale phase of our strategy, our near-term priority remains disciplined execution and organic value creation. And should surplus cash accumulate we will then consider special dividends and buy backs. Finally, the Board has recommended a final dividend of 6 pence per share, taking the full year dividend to 9 pence, up from 8.8 pence in FY25. This second year of dividend growth reflects improved profitability and the strength of our balance sheet, as well as confidence in our outlook.

To conclude, this slide brings together the progress we have made against the Fit for the Future strategy we outlined in November. During FY26, we delivered growth in like-for-like sales, progression in underlying profit and a meaningful improvement in our return on capital, which moved further above our cost of capital. At the same time, we have remained disciplined within the financial guardrails we set out, including our investment range, leverage target and dividend framework. 7 months in, the Optimise phase is beginning to show tangible financial benefits, while the investments we are making today are laying the foundations for the Evolve and Scale phases of the strategy. Overall, we are encouraged by the progress made in FY26 and remain confident in the long-term opportunity ahead. I will now hand over to Henry to cover our FY27 plans and outlook.

Henry Birch: Thanks, Jo. So, as Jo has detailed, we are really pleased with our FY26 performance and the momentum it has given us into FY27. And excitingly, we have plenty in the pipeline to drive further optimisation benefits. In Retail, we will continue to roll out our category management approach across the next wave of categories including bulbs, blades, travel, touring and car accessories. We'll continue our test-and-learn trials and decide which elements to roll out across our store estate. And we will introduce more comprehensive product training for front-line colleagues to better serve our customers, reinforcing our position as the trusted experts who love to help. In Garages, we will complete the final 35 Fusions. We will continue to invest in modern equipment and technology. We'll invest in training and capability. We'll improve customer journeys for servicing, and we'll remain focused on driving and operational improvements and utilisation. And at Group level, we are continuing to invest in our brand and digital capability, not least to ensure we are set up for success as customer behaviours adapt and change with the growth of AI. But also in FY27, we will begin to scope the key initiatives for the Evolve phase of our plan.

Turning now to the last three months of trading and the outlook for the year ahead, I am very pleased to say that trading in April, May and June has continued to be strong across both retail and garages. While we have not seen any significant impact from the conflict in the Middle East, second order effects on consumer behaviour could yet materialise later in the year. But based on our experience in recent months and plans to further optimise the business in the year ahead, we a expect a strong first half performance in

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FY27 and as such expect full-year underlying PBT to be around the top of the consensus range.

To conclude, I wanted to remind you exactly why we, as a management team, are such strong believers in the Halfords business and so confident in its future. We have a strong, universally recognised brand. We operate with unrivalled scale in attractive markets. We have an operating platform spanning physical stores, garages, depots and vans, combined with a growing digital offer. In fact, 85% of the population live within 15 minutes of a Halfords. We have 12,500 specialist colleagues offering unmatched advice and service. And with our 20 million customers and 6.5m Motoring Club members, we have a valuable data asset with significant, as yet largely untapped, potential. We have a clear strategy which we are executing with focus and discipline. This is driving share gains in our key markets. We are experiencing a tailwind from FX while the inflationary headwinds hindering our progress in recent years are easing. And we are driving improved profitability and higher returns as a result. Over the medium term, as part of the Evolve stage of our strategy, we see attractive investment opportunities to drive structural profitability gains. These opportunities are at the planning stage but will be executed with the same level of focus on returns and within the guardrails we have outlined. We expect to give more detail on these plans at our interims in November. But overall, we feel we are in great shape and although there is much to do, there is even more to gain.

Before finishing, I wanted to acknowledge the huge contribution of Keith Williams, our Chair, to our business. Keith has been the chair of Halfords for 8 years and has navigated Halfords through significant periods of change. I would like to thank him wholeheartedly on behalf of all my Halfords colleagues for his stewardship and his commitment to our business. We announced earlier in the year that Keith would be stepping down this summer and I am delighted to welcome Jock Lennox, as our new chair. Jock will assume his role at our AGM in September and joins us with significant experience across a number of businesses and industries. We are excited to have appointed someone of Jock’s calibre and look forward to working with him.

Thank you for listening today and we'll now happily take any questions that people may have.

Benedict Hunt: Morning, Ben Hunt from Panmure Liberum. I'm just sort of intrigued about the stance seems to have changed, well not necessarily changed, but the Fusion momentum seems to have been very strong. It looks like there hasn't really been any diminish in the returns that you've been making there. But going forward, you're talking more about taking the learnings and applying it to the rest of the state. What sort of maybe perhaps put a break and maybe you didn't want to extend the Fusion rollout or has there been any, do you

think you can just do this more efficiently without having to do as much CapEx or rebranding? Just some of the findings there and what are the sort of paybacks we should sort of look at where you do, do changes to some of the existing estate?

Henry Birch: Thanks, Ben. So to be really clear, Fusion was never about rolling out that concept to all of our garages, not least because the concept of Fusion had a couple of kind of qualifying criteria. One was that typically we were looking at a Fusion model where we had close proximity of a retail store. The idea being that actually you kind of managed the two together, but secondly, Fusions by their nature typically demand a larger garage. So when we made the national acquisition, a lot of those garages were candidates for Fusion conversion. If you've got a small garage, it doesn't necessarily make sense to have that kind of Fusion blueprint. Again, one thing with Fusion is putting in more ramps so you can have more throughput. If you've got a small garage, we may not be able to do that. So it's not a case of us saying that actually Fusion has kind of run out of gas.

It was only ever going to affect a certain number of garages. We originally said 150, a few years ago we said 138 and that's just us really being really clear about getting the returns. The point beyond that though is that actually having done this for 2.5 years, 3 years, we've got a lot of learning and a lot of data about what works. We've now got the remaining, I was about to do the math, 350 garages that we feel that we can actually put capital to work in effectively. Now that may be new equipment, it may be new capability in terms of colleagues or management, or it may be the refurbishment, putting in more ramps, it may be the customer area, but we're probably unlikely to kind of come up with a new branding of kind of Fusion mark two, but over the course of the next 12 months, we're focused on delivering that Fusion, but we will come back to investors to this forum and talk about exactly what we're going to do in terms of continuing to refurb our garage estate.

Because what we have proved is we can put capital to work and get returns and that's really, really important and really encouraging.

Benedict Hunt: And I guess just related to that, how should we think about the pruning of, I suppose both the garage and the retail estates clocking. I think you said you've got 90% of leases coming up for renewal in retail over the next five years or so, but the age old question about sort of the estate and how you're thinking about.

Henry Birch: Yeah. So I mean, taking retail, first of all, all of our stores are profitable. If you look actually over the last decade, we've probably closed what, 100 stores. We've closed two or three over the last 18 months, but all of them are profitable average lease length for retail 2.3 years and I think it's what, 80 or 90% within five years they've got. So we've got the flexibility there, but I

actually think we've got the right level of stores. And one of the things that actually I think strategically and operationally is a real competitive advantage for us actually is we want a retail estate. We want a physical estate. We want people to be able to bring their cars, come to our car parks, have services delivered in the retail car park and don't forget 80% of the services we provide as Halford actually take place in the retail car park.

So that is an important asset for us. So I don't really see that changing much at all. On the garages side, you're right, we closed a bunch of garages last year. Now don't forget, we made that national acquisition. In some cases, we ended up with two or three garages in very close proximity and it just doesn't make sense necessarily to have them next door to each other. So we did an element of pruning as Jo said before, gave us £1 million of benefit, but did take down, has obviously taken down our sales a bit. But if you strip that away like for like, still up at 5.8%. So I think on both sides we're comfortable with the size of our estate. My feeling is that over the medium term and longer term, we'll be growing our garage estate because actually there are limitations in the amount of volume we can process with that estate.

On the retail side, I don't see it changing significantly.

Jonathan Pritchard: Morning, Jonathan Pritchard at Peel Hunt. Two, if I may, just back on the current trading like for like, could you just perhaps, not looking for numbers, but just outline some categories that have been particularly strong, anything that might have lagged and just sort of anecdotal stuff really, just to help us get another level of granularity on that. And then on the gross margin, interested in your comments, obviously you've done a great job in growing that gross margin, but suggesting now that it's pretty much high enough, but there are some reasons to believe it could go higher. You've got more on label, more services, more SMR, et cetera. So am I reading this wrong that you might be reinvesting that? Am I reading it wrong that perhaps those aren't necessarily forces for high gross margins or is there an opportunity here to, as I say, reinvest into the brand, into service, enterprise?

Henry Birch: I won't hog the mic fully. So Jo, why don't you take that latter question and if I talk to category management and Jonathan, I'm sure you have, but I encourage you to chat to Jess who's sitting in front of you who is the leading expert on category management. But the short answer actually is that we're excited across the board in terms of what we can do with pushing that category management lens on our business. As I said, we've done four so far. We've got more that we're going to be rolling out this year To be honest, there's probably not one that I would pick out. They're all driving a strong returns. I think cycling we are quite excited about pushing, cycling that combination of treads with Halfords that we haven't done historically. This concept of flagship cycling stores where there's more product, there's more kind of local curation that is reaping real benefits.

And I think maybe over the last few years we've kind of pushed cycling down a bit. It is only 20% of our business, but it's what we're known for and actually there's real excitement in the business in terms of not just kind of cycling coming back, but actually how we can take it to the next level. And the e-bike stuff, I mean, hopefully it came across, but all of our exec team saw it this week and we were literally blown away. I am going to be going out and buying at least two of our e-bikes. We get a staff discount, but even without that, I would go out and buy our e-bikes and this isn't just a kind of promotional piece. I would A, buy an e-bike, but if you are going to buy one, go to Halfords and check out what we've got because I can guarantee you won't get a better bike that quality at that price.

So Jo.

Jo Hartley: Gross margin then thank you, Jonathan. Yeah. So it has been a brilliant couple of years on gross margin. We hit 52.8% this year, highest level in a decade and 460 basis points of gross margin improvement over the last two years. You're right to say there are some reasons it could get better. FX will continue to be a tailwind for us. There is opportunity to expand our own label penetration, which is margin accretive for us and historically we have seen a mix into SMR that's helped. As we look forward though, I don't think we will see gains at the sort of 200 plus basis points that we've seen in the past and that's largely because our three year better buying programme has really come to an end and also one of the strengths we're seeing in early trading this year is actually in the tyres business and that is a slightly lower margin.

So we may actually, as cycling and tyres start to recover, see a bit of a downward mix impact for that reason. I'm not saying margin will go backwards as a result, but it'll slightly temper some of those other impacts that you've rightly called out.

Jonathan Pritchard: Understood. Thank you.

Mark Photiades: Hi there. It's Mark Photiades from Canaccord. A couple questions from me please. Just on Avayler, appreciate obviously some customer changes in the year, but is there any update on the sort of timeline to break even for that business? Secondly, just on in terms of the margins on e-bikes versus traditional bikes, any differential and then finally you mentioned the statement, you're launching a new range of servicing options on the mobile expert side of things. Can you just give us a sense of what some of those new servicing options are? Yeah.

Henry Birch: So on Avayler, there isn't a significant update from when we spoke last. This year, FY27, our major client is Bridgestone in the US and in the course of calendar year, 2027, we expect them to start rolling out the Avayler product

throughout their garage network and that will be the point at which the financial dynamics of Avayler changes significantly. So we are in this kind of period as many software businesses are where you're developing the product early stage in terms of the sales pipeline, but we're not far away from the point at which there should be that kind of change. So no, I'm afraid there's not a huge update. It's kind of business as usual. We're talking to other potential clients. The Bridgestone relationship continues to be strong, but it's more kind of watch this space. On the e-bikes, I'm going to defer to Jo and she may defer to Jess on the margins, but I expect they're not significantly different.

Jo Hartley: No, and I mean, the great thing is that our e-bike range that Henry's described is largely own label within Halfords. And as a result, we're able to create a brilliant product at a fantastic price point, but also a strong margin for ourselves. So there's not a material difference between e-bike and traditional bike margins. As Henry says, they're amazing products, so hopefully we can show you some of them soon.

Henry Birch: And on the Halfords Mobile Expert piece, that actually started life as really a tyre product and we once upon a time bought a company called Tyres on the Drive, which kind of hinted at what it did. That business has predominantly been changing tyres at people's houses absolutely brilliant proposition. Again, if you want tyres changing on your car rather than having to take it to the garage, we'll come to you and do it. Very cost effective and efficient way of doing things. One things we recognised though was actually why couldn't we do servicing as well actually get the technician to come to your house and do a service on your drive outside your house. So that's something that we started offering. We're actually going to be rolling out more vans that are servicing only. So again, we think that's something that will go down well with customers because it's the ultimate convenience actually.

So expect more in that regard, but early trials are positive in that regard.

Manjari Dhar: Thank you. It's Manjari Dhar RBC. I just had two questions if I may. I just wondered about the B2B side of the garage business. How is brand awareness there? How's the Yodel contract doing and are there opportunities or plans to extend that to more partners? And then Jo, I just wondered on working capital for this year, just wondered if you give us colour on the moving parts, do the range relaunches in retail have an impact on how we should be thinking about that?

Henry Birch: So look, B2B is a really important part of our business. If you look at our overall sales, it's about 30% of our sales come from B2B and they're really important for us in terms of their reliable revenue. So whatever the weather, whatever the economy is doing, actually those B2B revenues are kind of consistent and solid and the good news is that they're growing, particularly

on the fleet side of things. So we've had some good wins actually this year. Sainsbury's has become a client, but one of our garage competitors, ATS, who are owned by Michelin, have basically dropped out the market and where we've seen a real benefit there is picking up some of their clients. So yeah, B2B absolutely core part of our business and we see it as a part that we can grow. And to the point you make, Manjari, about actually having the Halfords brand behind it I think is really powerful and something we'll look to accentuate increasingly.

Jo Hartley: And then from a working capital point of view actually just gone notwithstanding the fact that we grew our stock to support higher cycling sales in the spring summer season, we kept our working capital reasonably neutral and actually looking forward we would intend to do the same if not improve working capital. Again, stock may continue to increase slightly as our sales growth progresses, particularly in cycling, but we will see, leave us to offset that so no material movement.

David Hughes: Hi, David Hughes from Shore Capital. A couple of questions from me. Firstly, in terms of the margin bridge or profit bridge, particularly on the auto centre side of things, obviously you had a big boost from the kind of improvement to the gross margin within that, which you're not expecting to carry on going forward. But the flip side, you had very high inflation, which I think you're also not expecting to be so high. So I was just wondering in terms of where you think you can get to in garage margin, how do you see the further labour optimisation versus the inflation picture looking going forward? And then secondly, just on the category management side of things again, on the four categories that you've done so far, have you got any early indications in terms of are you seeing a notable difference in sales performance for those categories at the end of the year and seeing the benefit of that work?

Jo Hartley: Yeah. So look, we've always said that we believe we can get our auto centre business to a margin of sort of 5% to 6% and at the moment we're at 3.1% having grown 50 bips in the year. So first step on that journey. As we look forward, we expect the further margin expansion to largely come through utilisation and productivity gains as well as a growing top line. I think the work that Adam and the team have done this year has made an incredible difference in that. And I think the most compelling stat is that reduction in labour costs that we saw year on year in the fourth quarter, despite the material increases in wage rates from national insurance and national living wages. So as we look forward, we expect to see more of that and higher sales driving gross margin expansion, sorry, operating profit expansion as we look forward.

Henry Birch: And look, on the category management side, I'm not sure I can add too much more detail. We are really encouraged by what we're seeing so far, albeit it is early days. And as I said, it typically takes about nine months in terms of

cycling through making changes and kind of optimising each category. So hence we kind of gave a taster of it. We'll come back in November and give a lot more detail, but my guess is even in November we'll probably say wait until the end of the year to see a kind of full cycle of results. But talk to Jess, but I think that would probably be the thing that she's most excited about at the moment in the retail business in showing tangible progress and kind of results that we can really, really see and track.

Jo Hartley: I'll give you a tiny snippet workshop, which we talked about earlier, was one of the best performing categories from a like for like sales growth perspective last year and ahead of the wider retail business. So I'm not going to give you numbers, but you can really see the benefit coming through and we'll talk a bit more about it at the interim. That's

David Hughes: Great. I'll take what I can get. Thank you very much.

Kate Calvert: Kate Calvert from Investec. Just another question on the retail side. So as you move more towards this sort of category management, is there any investment you need in sort of fixtures and fittings or the general fabric of the store, et cetera, going forward or was that later on?

Henry Birch: Not specifically, but it is something we're conscious of that actually we need to continue to update and modernise our store estate in terms of it looking, inviting to customers. I mean, we do change the ranges physically. So what we did with layout of our car cleaning products this year, there's a little bit of tweaking, but it's not a kind of significant expense and we will shift categories around in terms of reducing the ranges or expanding them, but that per se doesn't present a significant capital expenditure. It's probably more on the overall fabric of stores that we're looking at that. Okay, thanks.

Jo Hartley: But also say that whatever we do, we will stick within the guardrails that we've laid out 55 to 65 million as we look forward.

Kate Calvert: And just as we move from optimise to evolve, what sort of big picture CapEx can we see there in the next stage of that development?

Henry Birch: Yeah, I mean the answer is what is that we're really clear that we've set out a CapEx envelope that we are looking to stick within and yeah, we just want to make sure that we drive that focus and that discipline and be very clear on the returns that we're getting from any CapEx that we put to work.

Arthur Peel: Arthur Peel Berenberg, just on the digital offering, where do you see the opportunity there and what could that grow to perhaps on like a five-year view?

Henry Birch: Yeah. So look, as I said before, we're really excited about what we can do on digital. I think historically we've maybe been a little bit underpowered in terms of our offer and the kind of focus on digital. It's a really important part of how we run our retail business altogether and the fact that 80% of digital orders are actually picked up in store, click and collect shows actually quite how closely those two kind of channels work hand in hand. Having said that, I think there are customers who will just shop with us digitally and therefore we need to make sure that we are competing with digital only retailers. So our first kind of focus has really been on more kind of foundational improvements in terms of making sure that the, in terms of website performance and speed navigation, but we're putting more focus on the trading side and the category management piece actually goes across both physical stores and the digital piece as well.

So that category management discipline in terms of running the kind of channel strategy should yield benefits. So what we've said is that we expect our digital sales to be ahead of our overall retail sales and we've delivered that over the course of the last year, but clearly our kind of intention is to grow that more and obviously the fantastic thing about digital is that the demand and supply is potentially infinite so we can really scale up our business that way. So it will continue to be important for us.

Okay. There are no other questions. I just want to thank everyone for coming today and wish you all the best for today and beyond. Thank you.