Arkadin Managed Calls

Event: Halfords Preliminary Results Analyst Presentation

Date: 23 May 2013

Speakers: Dennis Millard, Andrew Findlay, Matt Davies

Call Duration: 02:12:44

Conference Ref No:

26-28 Hammersmith Grove / London W6 7PE
Tel: +44 (0)20 8742 6350 / Fax: +44 (0)20 8742 6355
www.arkadin.co.uk

Thursday, 23 May 2013

DENNIS MILLARD: Good morning, ladies and gentlemen. Before I start - and I've got only a very small part to play in this, you'll be delighted to hear - I just want to read a few housekeeping points. Firstly, could you turn off your mobiles - including myself - and we are not expecting a fire alarm, so if you hear one it's the real thing. So please follow the conference centre staff, who will be situated here, and take you out of the building.

We have a very full agenda today; circa two hours of presentations, including the coffee break and Q&A. The focus of today's presentation, however, is on the strategy and not the results. Having said that, we'll kick off first with Andrew, who will take you through the results, most of which have been well flagged already. Matt will then follow, and he will give you his insights on the business, having been now with the business for seven months. He will outline the strategy which is driving the top-line, as you can see our flag at the top. He will also lay out, in quite a lot of detail, our plans for the next few years, which we've called "Getting into Gear", and importantly at the end he will lay out some of the key milestones or KPIs that we will measure our performance against over the next three years. We will then have a break. Andrew will then come back and he'll bring together all the financial aspects of the plan for the next three years, and the investments that we'll be making and the returns we would hope to make. We will then have Q&A and then finish off the presentation.

I would like to just give one little message, which is that the board has been very closely involved over the last number of months the formulation of this strategy and we're fully supportive of it. The changes that Matt and Andrew are going to outline were necessary, are necessary, but I think we should bear in mind this is not just a three-year plan. This is actually a platform for growth that the team are setting for many, many years to come. With that I would like to thank you, and over to Andrew.

ANDREW FINDLAY: Thanks, Dennis, and good morning everyone. As you just heard, I'll take you through the financial effects of our medium term plans for the business after the break, including guidance for this new financial year. First, I'd like to take you through a brief review of our performance for the financial year just gone. Group revenue - at £871 million - was up 1%. Retail gross margin was, as expected, broadly flat at 53.3%. Profit before tax was at the top end of recent guidance at £72 million. The decline of 21.9% reflected underlying retail inflation, and investment in colleagues this year, accompanied by a fall in retail like-for-like sales. Without the £6 million of strategic opex investment I talked to you about 12 months ago, our retail sales decline would have been more acute. A key theme of today is how we are to reverse this trend and return to a sustainable top-line growth. Basic earnings per share at 27.7 pence - down 17.8% - reflected the reduction in profit before tax, and an underlying effective tax rate of 25.3% in line with guidance. Net debt was better than anticipated at £110.6 million, with free cash flow in the year again over £70 million.

Subject to shareholder approval, the board recommends a reduction in the final dividend to 9.1 pence per share. This takes the full year dividend to 17.1 pence per share, down 22%. The rebating of future dividends is to a level more prudently covered by earnings, such that over the longer term it can move more in line with the capital needs and performance of the business. The proposal reflects the requirement for the business to invest, whilst maintaining both an appropriate level of earnings cover and a robust balance sheet. I'll provide you with more clarity on our future dividend policy after the break.

So turning to retail first. Like-for-like revenues were down 0.7%. Though second quarter cycling sales and premium bikes, in particular, benefited from the Olympics and the Sir Bradley Wiggins effect, the category suffered badly from the very wet weather conditions in Q1, and the wet and especially cold weather conditions in Q4. Despite this there were some real successes in the year, such as cycle repair sales up over 25% and cycle-to-work sales up by over 17%. The key category focus in FY13 was car maintenance, where like-for-like revenues rose by 5.1% in the year. Inevitably, the extended cold weather conditions helped in the final quarter but our strategic focus and investments in training, colleague hours and marketing delivered real success, with 3B, bulb, blade and battery fitting penetration up by 890 basis points to a record of 35.2%. Parts sales were up by 10.9%. We saw customers in great numbers buy margin accretive parts, and taking up what is a unique seven-day-a-week on demand fitting solution. This category also benefited from the market leading Castrol Oil offers we executed throughout the year. Car enhancement, like-for-like sales, fell 4.2%, a smaller decline than in previous years. Audio sales encouragingly grew by 2.8%. Although we did experience declines elsewhere, with a double digit fall in car cleaning sales predominantly driven by the Q1 and Q4 weather conditions. Travel solutions posted a disappointing 6.8% fall in like-for-like sales. Camping revenues - down by over 17% - were impacted by the lack of any summer and the increasingly competitive environment. This is a category where we currently do not provide any service overlay differential and where our range is limited. It is something we are taking steps to address in FY14 with new brands. However, it will be an area of continuing challenge. Child car seats - at 18% of travel solution sales - again saw an expected decline as we continued to focus on managing the category for cash.

In the table at the foot of this slide you'll see that our online retail business grew by around 16% in the year. There was a particularly positive reaction from customers for our 24 hour fulfilment to store offer put in place just over 12 months ago, with in-store pickup representing 87.5% of online retail sales. It is just worth giving you a handful of examples of the successes we've had in retail this year that gives us confidence in the investments we are planning to make. By properly resourcing the level of both marketing and in-store colleagues behind 3Bs we not only saw the sharp increase in fitting penetration I mentioned, but also delivered a 51% increase in the number of 3B jobs carried out. Ahead of the material focus and investment in cycle repair this yeah, that Matt will talk about later, we delivered the 25% increase in sales I referred to earlier. This is despite putting in few additional resources during the year. Total fitting and service income, which also caps our unique services - such as audio and roof bar fitting - was around £21 million, 37% up in the period.

Looking at retail in more detail, total revenues fell by 0.9%. In line with full year guidance, retail gross margins grew 12 basis points. Operating costs increased by 5.3%, reflecting both the £6 million of successful strategic investment in areas such as car maintenance fitting and 24 hour multichannel fulfilment, plus the inflationary pressure on our underlying operating costs. Retail EBIT of £73.6 million resulted in an EBIT margin of around 10%. Although our focus, going forward, on investment for growth means I will increasingly talk about our EBITDA margin rather than EBIT margin, a more relevant cash focus measure. Later on I will give you a steer as to the likely direction of our EBITDA margins in retail and autocentres over the medium term. Finally, we incurred a non-recurring charge of £1 million in the year, and I have provided further details on this within the appendix of your packs.

It is useful to understand the moving parts of our retail gross margin. With a broadly flat percentage margin this year there were some pressures that were offset by some favourable factors. Although current enhancement delivers the lowest gross margin percentage within retail, there was a considerable mix effect within the category, with brand-dominant audio sales particularly strong, while margin attractive car cleaning sales fell by around 11%. We've been spring cleaning the stock file this year, exiting old inventory and aggressively managing obsolete stock. This activity has been accompanied by more compelling promotional offers for customers. For example, our market leading Castrol Oil deal being more frequent this year. Finally, with premium cycles delivering higher transaction values but lowest margin percentage in the cycling category, a premium cycle revenue increase of over 13% had an overall margin dilutive impact this year.

Turning to the offsetting favourable influences. Our focus on margin accreting car maintenance fitting and parts sales delivered a positive impact, as did the 37% increase in overall in-store service revenue. Increased attention during the year on store shrinkage, reflecting improved in-store disciplines, also benefited margin. And we inevitably saw a general mix effect from the poor weather conditions, with higher margin car maintenance sales benefiting from the cold and wet weather and taking a high proportion of the sales mix.

If you look at retail opex, the increase of 5.3% was marginally below that guided at the start of the year, with lower than anticipated sales volumes driving variable costs and a bonus payout less than my original guidance. As I mentioned earlier, our strategic focus on capturing the car maintenance, parts and fitting market opportunity was matched with investment with over 450 additional fitting colleagues recruited in time for the winter peak. We invested payroll hours in both technical and engagement skill training. This, along with underlying uplift in national minimum wage rates, led to a 6.2% increase in store staffing costs. Store occupancy costs increased by 1.5% in the year. Business rate increases of 2.2%, together with continued pressure from upward-only rent reviews, were partially mitigated by a strong focus on rent negotiations and reduction in other property related costs. Warehouse and distribution costs increased by 3.6%, primarily driven by investment to deliver on our 24 hour fulfilment offer, while support costs increased by 13.7%. This increase included the planned investment in 3Bs marketing activity, particularly in the second half of the year. The investment in training for our store colleagues, centralisation of store recruitment processes to release more time for our store managers to spend with customers, plus enhanced support centre capability in areas such as Online Retail, and a dedicated team focused on the delivery of cycling, parts, accessories and clothing, PACs being launched this month. Non-capitalisable IT costs also increased, as we adapted our existing software and technology ready for the PACs launch later this month. A limited bonus was accrued for our support centre colleagues, for their personal contributions to the progress made on the projects that will help deliver our longer term aspirations. So you are clear, full one-off provisions for the exits of David Wilde and our former Commercial and Retail directors, as well as the recruitment costs for their successors already appointed, were also included in support costs for the financial year.

So now moving on to autocentres. Sales were up almost 14%, with like-for-like growth of 7%. A strong result in a market that we believe continued to decline last year, due to the unrelenting pressures on motorists and slower demand from fleet. We opened a further 23 centres in the year to take the centre estate to 283, with a further target of 20 to 30 centres opening this year. I talked to you a year ago about the anticipated effect of the growth in margin dilutive tyres, and as expected the gross margin fell by over 200 basis points. Underlying margins in our service, MOT and repair core business, however, were up in the year as we continued to leverage our improved buying power. Operating costs increased by around 12%, with 70% of the increase from centres opened since we acquired the business three years ago, and the rest from investments to support our future growth. To be clear, if we had been faced with a flat market, made no investments in capability, and opened no new centres in the last three years, our strongly performing core centres would have delivered an EBIT significantly higher than that being reported today. Long-term decisions made in FY13 to invest in areas such as a new diary booking system for customers, a website upgrade, and up-skilling our fleet sales team made sense as we develop our scale and proposition. Matt will provide you with more detail on the autocentres' business and its markets later.

Halfords continues to generate significant amounts of cash, with cash profit being the absolute focus of our execution. Before the dividend the business again generated over £70 million of free cash in the year. This included a £10 million improvement in working capital, as we reduced inventories by over 9% down to £131.9 million, and group capex of over £20 million was in line with our guidance of up to £25 million.

Net debt at £110.6 million came in lower than anticipated, due to the continued cash generation capability of the business, plus the delayed timing of a one-off tax payment relating to prior years. The tax cash outflow in FY13 of £18.2 million does not include the settlement of ongoing provision in the accounts of around £20 million, relating to the closure of a number of tax computations dating back to 2006. It is anticipated that this provision will crystallise in FY14.

Future gearing levels do have a material influence on capital allocation, such as dividend, particularly as we now invest for growth. Looking at our recent net debt history, net debt to EBITDA remained at 1.1 times cover. With no pension liability our balance sheet for FY13 remained in good shape. Capitalising our rental costs at 8 times, which is well above our average lease length, adjusted net debt to EBITDAR was at 4.2 times cover, primarily reflecting an increased rental outlay in both retail and autocentres.

We continue to benefit from our very supportive lending partners. With the maturity of our £300 million facility in November 2014 - albeit with a one year extension - we plan to take the opportunity to refinance in this calendar year, and realign our facility to the capital allocation priorities. I will cover that after the break.

So, to summarise, we delivered a stronger top-line this year and we look to build on this momentum. This growth, however, clearly wasn't enough to offset both opex cost pressures seen in retail and continuing autocentres investments. We have to deliver stronger, sustainable revenue growth going forward. Despite our focus on cash profit, retail gross margins were also managed well across a mix of categories.

We are in better shape with our stocks, as we have effectively managed redundant lines and delivered a stock file ready for the investments ahead. Investment for medium and long-term growth in autocentres has continued, as we look to mitigate market pressures and exploit our unique role in this category. Operating cash generation was again strong and, at the end of FY13, gearing remains at an appropriate level despite the falling profitability. In FY13 cash cover on the dividend was good, but the board recognises that a more appropriate and sustainable level of earnings cover is required, particularly as we anticipate a short-term dip in profitability and a period of investment, which Matt will refer to later.

With that, I will hand you now over to Matt who will take you through the plans we have for the business.

MATT DAVIES: Thanks, Andrew. Good morning, everyone. Firstly, thank you for being so patient and allowing me some time to actually understand the business before presenting how we plan to take Halfords forward. I hope Andrew's and my presentations will answer many of your questions, but we will save loads of time at the end to make sure that we can pick anything up that you want to explore further.

As Dennis said, I've now been at Halfords for some seven months and I've used that time to take a measured look at the business and form a view as to how we best go forward. This morning I'd like to share with you that view and the plans that I've drawn up for the future. Now, at the outset of today, I want to make it really, really clear that Halfords is a good business with a really clear, strategic framework in place. I know this is something I said to you when we first met, at the time of the interim results, and it's something that I really believe. However, there is some repositioning necessary to make sure that we can move Halfords from being good to being great. The single most important objective of our plan - hence the title of today - is to drive profitable sales growth, and to do this through leveraging expertise in stores. Investment is required to achieve this repositioning, but the investment is going to make sure that we stay relevant and support all our growth, going forward. But, unfortunately, the investments and the one-offs that Andrew and I will outline today will impact short-term profitability and cash generation. However, our plans will deliver long-term revenue and profit growth, together with sustainable shareholder value.

Before we get going, I thought it would be useful if I just covered the strategy that Halfords launched last year to focus on three core pillars: so auto, cycling and leisure. I believe this is absolutely the right strategy, and our new Getting Into Gear programme is designed to support and drive these three pillars. However, we are redefining the pillars, so that we introduce a clearer purpose and just a bit more passion. So, as it says on the slide, our mission remains to help and inspire our customers with their life on the move but the existing pillars will evolve to become supporting drivers of every car, inspiring cyclists of every age, and equipping families for their leisure time. So our two critical pillars are car and cycling, with the third pillar giving us the flexibility to create more excitement, extend our range and leverage space. So, I guess my headline would be that I believe that 90% of our focus needs to be on auto and cycle, as these markets are significant, and, if we do our job brilliantly we can grow our share. As well as growing the overall market, if you come into one of our stores to buy a new wiper blade and maybe you have never considered buying a bike, but our challenge is to inspire you to do just that.

Okay. So, if we get going, what I'm going to do is I'm going to kick off with our newest business, Halfords Autocentres, and I'll talk you through our plans for autocentres and then we'll move on to retail. The first thing for me at the outset is standing back, and with benefit of hindsight, acquiring autocentres to me looks a really good call. Halfords is a trusted brand in automotive, so a move into the garaging servicing sector is a natural extension of the Halfords' business model, as we can now offer customers end-to-end solutions, from car parts to the fitting of bulbs, blades and batteries, to full servicing, MOTs and repairs. The strategy we've got in place is sound and autocentres provide a really good growth opportunity for the group. However, there is no doubt - again, with the benefit of hindsight - that the short-term profit expectations discussed at the time of purchase were over optimistic and didn't fully consider the implications of embarking on a rapid expansion of the chain through opening a load of new autocentres as we have done. Also, I point out that that the auto after-care market, in the period since acquisition, has actually been a lot tougher than expected. The economic downturn has particularly hit motorists, with escalating fuel and insurance costs. This has caused motorists to reduce mileage and cut back on other costs where possible, including car servicing. So this incredibly straightforward slide which we've put together, hopefully, will help us look at the auto aftercare retail market as addressed by autocentres in the period since acquisition. The slide shows the various components that contribute to the overall value over the market. So, you've got the number of cars on the road, the number of MOTs those cars need, the level of servicing and the amount spent on each visit. If we start on the left-hand side, we can see that the actual number of cars on the road has increased slightly, and so too have the number of MOTs. However, motorists have not serviced their cars so often as less mileage is being driven and they've spent significantly less each time they visit a garage. They just aren't inclined to deal with the repairs which can wait for another day, and I think there is also a temptation to actually downgrade a full service to an interim service. On the right-hand side we can see the combined results of these factors is that total spend, in our estimation, during this period has reduced by around 5% or so. We've actually seen similar factors at work in the fleet market, where fleets have got slightly newer, meaning less maintenance and repair. So we reckon the fleet market has also contracted by around 5% over that period.

So, if we move on and we look at Halfords Autocentres' performance during the same period. We've grown autocentres retail like-for-like, including tyre sales - it's important to point that out because we're all aware of that as a new business - by over 6%. Even if we split tyres out, sales were still up by 1.2%. So, 6% better than the market. This has been achieved by making better use of the existing autocentres' capacity, rebranding and national advertising, which has attracted thousands of new customers. We've also diversified the business to offer a range of new products. So tyres, as I just mentioned, and some really innovative products like Brakes for Life. If we just take a moment and consider the huge opportunity for growth that Halfords have in the auto aftercare market. This is a big, big market. Its estimated value is around £9 billion. Our 287 centres only represent a tiny share - about 1% or 2% - and all our analysis shows that we've got growth opportunities across all our core categories, because we only have very small shares across the range of our offer. Looking forward, we also think markets will return to growth as, ultimately, there is only so long that maintenance and repairs can actually be deferred. The dynamics of the market look to be working in Halfords favour. It is not only a large market but it is also massively fragmented. There are some 22,000 sites split between dealerships, fast fit outfits and a large number - some 12,000 - of small, independent garage operators. Garage capacity has been declining for many years, by around 1% to 2% per annum, so each year the same capacity as the total Halfords chain of autocentres is actually leaving the market. The competitive environment, together with skills and the equipment costs necessary for servicing modern cars, is just making it more difficult for sole traders and what we're seeing is a number of them are shutting down every year. Meanwhile, Halfords autocentres is expanding rapidly. Since acquisition we've increased our Autocentre chain numbers by 27% and - as discussed - we've invested really heavily to support this growth.

We believe that Halfords is uniquely placed to expand further and to take market share. We're a recognised and strong brand in auto aftercare, and it's a really important advantage this. One of the most important factors for motorists in determining where to actually go for a service is trust. We can leverage national advertising much better between retail and autocentres and cross-sell between our stores and our autocentres. Ultimately, I think our proposition of dealership quality work, at more affordable prices supported by a really high level of customer service, should be a very, very compelling one.

So, the conclusion of my review of autocentres is that this is a great growth opportunity for us and it does provide the business with really good potential to build some real scale here. I think we've got a really clear strategy in place for the future. Operationally, we're going to increase what we sell to our existing customers by focusing services on the big four: so tyres, brakes, service and MOT. We'll support these sales through innovations, like Sunday openings that we're doing at the moment, more new product packages, and revamping our website. If you look at our latest website, which we launched last week, it's a huge step on from what was there before. It makes booking a service much, much easier - through proven market routes we'll keep driving people to autocentres. And we'll grow our share with the fleet market by developing our presence and finding new customers. And then we'll just keep rolling out new autocentres, so for the next few years we can't see any reason why we can't open 20 to 30 centres per annum. So, over time, I would expect to see profitability build as we reach critical mass in the business, but a very, very clear growth opportunity for us.

So, hopefully, that's given everyone a really good flavour as to where we're taking autocentres. I suggest that we pick up questions on autocentres at the end of the presentation. We now turn our attention to Halfords retail.

Over the next, sort of, few slides - actually, I suppose there is more than a few - I'd like to take you through our programme of activity to reposition the business and to move us from good to great. As everybody in this room is aware, we face some significant challenges. We haven't ducked away from those and that is what my review addresses: how we prepare Halfords for the future and make sure we put the business on a path to consistently drive profitable top-line sales growth.

So, first of all, let's be absolutely definite, Halfords has a strong place in UK retail. We've got an excellent brand that shoppers in Britain have grown up with, and there is no doubt in a customer's mind what Halfords stands for and what we sell. Halfords fulfils a clear customer need. We're the nation's leading cycle retailer, selling 1 million cycles a year. We're the "go to" destination for motorists. So our products and services are relevant to today's customers, and key parts of our offer - especially those which are service related - are unique to Halfords.

Before we get into the meat of the strategy, I think it is really useful if we just pause and look at some of the markets in which Halfords operates, where we've got some really good opportunities for growth. For instance, the cycle market is buoyant and the popularity of cycling is growing. We've all seen the impact of British success in the Tour de France last year and at the Olympics. Everywhere we look there is evidence that cycling is booming. Now, the market for bikes is worth some £700 million. Halfords has a 20% to 25% share. The market for cycle parts, accessories and clothing, PACs, is a similar size, but we've only got a 15% share. So some clear opportunity to grow. But the key is both the cycle and the PACs markets are estimated to be growing for the next few years by 5% a year, and we are really well placed to not just enjoy a chunk of that growth but to grow our share. If we look at the cycle repair market it is worth £100 million. We only have an 8% share. Our focus on the cycle repair market this year has produced growth of 25%, which points to the potential for growth if we can present the right offer to our customers. Hopefully, all these factors will mean that there are really clear opportunities for Halfords to grow in these markets where we've got phenomenal heritage and expertise.

If we move on and we look at auto. It is absolutely not just about cycling where this business can grow. We've got some really clear opportunities for growth in auto. I think 3Bs best highlights it. So, as I think we're all familiar with, that is the fitting of bulbs, wiper blades and batteries. The market is estimated to be worth around £950 million, yet Halfords only has an 11% share. When I look at our pretty much unique WeFit offer, I think it is a massive area of ongoing opportunity for us. We'll keep focusing on it. We've invested in colleagues' training and advertising. We've started to hold WeFit weekends to raise awareness. And the strong growth of 50% this year in the number of 3B fitting jobs, I think just shows really clearly how customers welcome this service, and it has helped to grow our underlying parts sales by just short of 11%. There is loads that's great about Halfords. As I just said, we're in a really good position to make the best of market opportunities arising from cycling 3Bs. There are other opportunities, like the anticipated growth in demand for digital radios that we've got to make sure we're well positioned for.

Halfords is a powerful and, I believe, in reality a popular brand. Our strengths include many terrific products, great quality, great value. You only need to look at some of our cycles. So, Boardman cycles, which combine industry leading designs with prices that are 15% to 20% lower than a cycle of comparable spec. We've got a nationwide store network to leverage which - although sometimes seen as a hindrance in the digital age - can in fact provide a competitive advantage. We've got a global sourcing infrastructure, which means we supply products from the world's leading manufacturers, at least to our customers. And we have a core of colleagues who are knowledgeable experts. On our day, the service we provide is hard to beat. We get lots of letters. I get loads of emails from customers who are simply bowled over by the fantastic help we provide, be it fitting a battery on a freezing day or repairing a bike overnight for a customer who had an accident on their way home from work.

However, these reports of great service aren't universal and there have been - until very, very recently - more examples where customers were let down by some aspect of their shopping trip with us. Probably one of my real surprises in joining the business is the amount of complaints that hit my email box, never mind those that have to be dealt with by our customer service team. Ultimately, the delivery of our potentially great proposition is inconsistent. These issues have just mounted up and are now, I believe, affecting our sales line. Our customers tell us they are frustrated with one aspect or another of the Halfords' experience, and I've listed some of the key issues on the slide. These are basic retail issues but - believe me - when you take them together they have a big effect. The ultimate result is that either too many of our customers are choosing to shop elsewhere or we aren't attracting the customers that we could. We aren't inspiring our customers. The evidence of this dissatisfaction with the Halfords' offer again, unfortunately, is all around us. You only need to have a quick scan of social media channels to see the views that our customers are sharing with their friends, and the result has been deterioration in our net promoter score. This specifically measures the propensity of customers to recommend our service to others. This slide literally was one of the first slides that hit me on joining the business. You can see the Halfords score. Until very, very recently our score has been close to that of a value retailer, a long, long way adrift from the score of a specialist where we ought to be. This is a headline from last year that the Halfords team never ever wants to see again.

So I'd like to just summarise my perspective. Halfords can be a great business. We have thousands of amazing people across our stores, autocentres, distribution centres and support office, and a solid core of expertise. The central issue is that we just haven't supported our store colleagues to do the job that they aspire to. One measure of this is the 8,000 comments that we received from last year's colleague engagement survey. This was the first colleague engagement survey the business had done for a very long time. The feedback was packed with suggestions for improvements that could support colleagues in their roles and help them help our customers. Now, these weren't comments from colleagues who were checking out. Their message to management was clear and simple: we can and should do much, much better. It is not too late but we've got to act now. We've got a window of opportunity to reposition the business and to stop our top-line eroding.

In the last 13 quarters 10 have seen like-for-like declines. Our retail revenues have gone backwards from £812 million in FY10 to £746 million in FY13. I think the challenges that we must face into are really well set out on this slide. If I could summarise, it would be the key is that we can't afford to be the laggards of specialist retail when it comes to customer service. We've got to be leading the way, which is why we have to act now.

So, we're announcing today a programme for a repositioning of Halfords. We're calling the programme "Getting into Gear-2016". It is specifically designed to drive profitable top-line growth. If I just pause there for a second. The reason why I'm so focused on driving top-line growth is that, if you look at this business, there are very few costs to take out. Our cost base is inflating at 2% a year. Our sales are going backwards. If we do not generate some top-line growth, you don't need to go too far forward to not see a pretty picture. So this is all about generating profitable sales growth, and the priority areas that I will talk you through now will come together to do that.

We start with the service revolution, which introduces a step change in service across Halfords' stores. The H-factor which will see us reassert our proposition authority, stores fit to shop, which raises the standards of the Halfords store estate, 21st century infrastructure, make sure we have the right systems and infrastructure to support service and sales, and then click with a digital future, creating a really service-led digital proposition. A lot of this work is already under way and we're making good progress, and I'll share some of that with you. But the changes are far-reaching and touch just about every corner of the business. So, inevitably, this programme is going to take us three years to complete, but then - as Dennis says - it will provide a really solid platform for us to move forward.

So, if we look at each of these sections in turn and we'll kick off with service revolution. Service is our number one key area for focus. Service has to be right at the heart of our proposition, as two-thirds of our products require some level of assistance. I worked in a Halfords store the first week I joined the business, and what blew me away was the amount of customers which required some assistance. I reckon about 70% of all customers required some form of advice or knowledge. I've never seen a specialist retailer where expertise is more important than Halfords. Increasingly, we're making a merit of the service that we provide and it is becoming a product in its own right. Now the level of service that we aspire to is something that supermarkets will never be able to deliver, so it's a really important barrier to entry and it gives us a clear competitive advantage over the online pure-plays who have no stores or colleagues on the ground. But we've got to improve to deliver the promise. Friendly, expertise-based service is fundamental to delivering profitable sales growth. When customers have a better experience at Halfords they're going to spend more with us and - really importantly - they're going to recommend us to their mates and their family. So the service revolution will ensure that customers are served by colleagues who are enthusiastic about their role at Halfords and the products and the service that we offer.

Clearly, we have got a lot of work to do here. If I over-stress some of the points on this slide, it is perhaps a measure of how passionately I feel that great service is really the only route forward for Halfords. We absolutely have to get it right. As much as I hate to say this, the business that I joined had little embedded service culture. We let other pressures and processes get in the way of service when this should have been our number one priority. Recruitment, training and retention of great people has not been part of Halfords' core focus in recent years. We consequently have got a large churn of people. So all the time people are leaving and joining, leaving and joining; it's like a merry-go-round. So what we need to do is we need to engage our colleagues, as we know that highly engaged colleagues result in satisfied customers. So our programme makes recruitment development, and retention of people, a core KPI. We're revising rotors and scheduling, amending contracted hours, to make sure we've got colleagues available to serve customers when they're needed to the best that we can. Our store incentives programme will now be inextricably linked to service as well as sales.

We're opening new Halfords academies as one of the mechanisms to provide the training that colleagues need, and - perhaps most exciting - the launch of 3-Gears: a training programme and colleague qualification programme that puts expertise at our core, and has the potential to revolutionise our approach to building colleagues' expertise and our customers' experience when they shop with us.

So, hopefully without running the risk of boring people, I'd just like to take a minute to describe the 3-Gears programme and how it will actually work in practice. Gear One applies to every single one of our store colleagues - so 10,000 people across the business. It is completed over their first three-month period with Halfords. We'll use structured e-learning modules that cover retail skills, product knowledge and customer service, and the outcome is that all store colleagues will be qualified to serve our customers.

Gear-2 involves a nine-month training programme. Again, this is targeted across the whole of our colleague base, which leads to an expert level of product knowledge. So you specialise in either auto and leisure or cycles. Tuition is both through e-learning and face-to-face programmes, regular refresher courses, but, because this is an expert level of qualification, there is a pay award for those who attain this level. Very simply, if people learn with us - and a lot of that learning will be on their own time - they will earn with us.

Gear-3 colleagues are then our gurus. I anticipate that in time we'll have a couple of Gear-3 colleagues in every store. They are absolute experts who are qualified to train others. They keep their skills and knowledge current and market leading, through workshops, product and trade shows, and by linking and getting out to suppliers. They will also receive leadership development, and there will also be a pay increment for people at Gear-3 level. But the Gear-2 programme - I will come on to our milestones - is one where I would hope to get huge, huge, huge numbers of colleagues through. Gear-3 will only ever be around two per store over the next few years. This programme profoundly changes our expectations of our colleagues and sends a really clear message on the focus of their role. And the importance that I place on them succeed, the whole board places on them succeed. The business is built on the back of how our colleagues interact with our customers.

Now I know - from my days at Pets at Home - how pivotal expertise is to a business like Halfords. As I said, expertise is even more important here and I know how to leverage this expertise over the coming months and years to drive profitable sales growth. We're not doing this out of the goodness of our hearts. We're not training people for the sake of it. We're training people so we can leverage that expertise to drive sales. That's the strategy. It will take a couple of years to feed through. We've got thousands and thousands of people out there and it's a daunting task but - as 2016 approaches - I'm convinced that we're going to be reaping the benefits of the investments that we're initiating today.

This particular investment is probably one of the most important that we're going to make, as we commit a total of £7 million opex investment in FY14 across the service revolution and the pay review, and then a further £7 million of opex investment in colleagues this year, across cycle repair, fitting and incentives. That very much depends on volumes and performance, so we only make that investment if the sales are there and Andrew will pick up and give you a little bit more guidance around that.

Retail disciplines aren't rocket science but they do take a consistent focus and we've not been delivering to a high enough standard on many of these. But it is now changing and I'm convinced - if you go into our stores and you've been a frequent shopper in Halfords in the past - you're seeing some difference. There's a huge amount of work underway. My initial focus has been on improving availability for our customers. To improve availability we've now got working hand-held scanners in each store, the supporters counting stock and maintaining the overall integrity of our stock file. And I'm trying to get the business back to a real focus on good, old fashioned stock disciplines. We're currently holding an historic low of stock, which is a result of some improved processes. But in some areas it has impacted store availability and our overall capability to trade the business. So, during the current year, it is very difficult to call but we reckon there will be an incremental £15 million to £20 million worth of stock needed. Part of this is natural rebuild but the majority is about supporting PACs, improving availability in stores, supporting our cycle ambitions, and allowing us to trade without the fierce constraints that we've got at the moment.

On the slide I've listed some of the other areas that we're working on. Please don't take the fact that I'm not going to talk through each of them as they're not important. Come together they all make incredibly important difference for customers, but if I talk through every bullet point we would be here all day.

If we move on and talk about the H-factor. There is no doubt in my mind that the authority of the Halfords' retail proposition has slipped a bit. So, reasserting our authority is a priority way of very catchily labelling the H-factor. We've got some great products in many areas of our stores but I believe we can raise our game. We need to push the boundaries more on product development and design. I'm really looking to up the level of innovation that you see in Halfords stores and take a few more risks in delighting our customers and our colleagues. So you'll see some more special buys in stores, and it is really using our third pillar to trade against. A good example of this would be we've just bought 1,000 inflatable kayaks that will be retailing at £99.99. They have just gone on sale. I gather we've sold 16 already, so you'd better get there quickly if you want your £99 kayak. We'll also get our space allocation right so it supports growth opportunities anew, our existing ranges. We've got a real push on reorganising our store layouts to release space for growth. Whether that be within existing ranges, range extensions, or new product areas, but a lot of the work is underway or a chunk of it is underway so - by the end of this summer - we will have partly rebalanced some 100 stores, with a focus of moving child seats downstairs, releasing space to cycling, better segmenting our cycle offer and also taking a bit of space away from car enhancement, which is over spaced at the moment.

We have to really focus on our core areas so we build on our credentials as a specialist retailer, particularly in our core areas of cycling and auto. Specialism is something we should celebrate, and being an expert is something that we should be proud of. That's our business. We're experts. There's a lot of really good stuff in the pipeline that demonstrates, I think, the progress that we're making with the H-factor - also the H-factor. Let me just take a minute and just talk you through. If we kick off with motoring and we think of the motoring pillar. We're partnering with a new battery supplier, Yuasa, to introduce electronic diagnostic terminals into every store. This is going to allow us to reset a car's electronic system after work on the battery, which will give all stores the ability to work on modern stop/start cars, something that no other retailer is doing, and I think a great example of where we're going to leverage in-store expertise to drive sales. Across audio, with the government expected to commit to a digital radio switch-over later this year, we're really preparing for the opportunity. It is a classic example of where - if we've got consistent expertise in stores - we can leverage that to drive sales. But we think there could be a sizeable opportunity for us and we should be far and away the market leader. We've also just launched - actually, there is an example of it outside - the Garmin digital traffic sat nav. It's the first ever sat nav with free lifetime traffic, and we've got I think it's a six month exclusivity on that with Garmin. So there's lots happening in motor.

If I move through to cycling. To inspire cyclists of every age we're really planning to make this the year of the cycle at Halfords, as I said, building on the momentum. In fact, by August of next year with the plans that we have, pretty much every single one of our ranges will have been updated. That starts with us re-launching our exclusive Voodoo range in a few weeks and the Boardman range re-launches in September/October. I saw that new range a couple of days ago, actually, in the support office. The guys took me through it. It looks absolutely fantastic. Not only have we moved the technical spec on but we've also really increased the desirability of the product, and it's great to see us bring back in the 999 Boardman team carbon. We're adding lots of new models to the successful Pendleton range. Again, they're out there. And, really importantly, we're re-launching our range of Apollo bikes later in the year. Now, Apollo bikes might not be sexy, like Boardman or Carrera or Victoria Pendleton, but actually we sell hundreds of thousands of them. They're very, very important to us as a business. The final point I would just like to flag up is that we've been appointed by Sky as their technical partner for Sky Rides across the country. So 150,000 cyclists will see the Halfords brand as standing proud alongside Sky, really championing cycling.

If we think about the holiday season - we've just launched our new camping range incorporating Vango for the first time, a brand synonymous with camping. We've also launched a new range of accessories. We've extended the Exodus brand into roof bars. And I think if you go into our stores you'll see some really strong spring displays around great days out. As you go in, of course, don't forget the inflatable kayaks because they'll definitely sell very quickly. Otherwise, it will be embarrassing for me because it was my idea.

If I turn now to our stores and our ambition to make our estate a place that customers want to shop. I am going to really deal with this section in two halves. Firstly, I want to review the structure of our estate as there has been a lot of speculation - as there has been with really all retailers - as to what is the correct number of stores for Halfords. Ultimately, it is a moot point for me to debate the right size of our estate. We've got 466 stores, 460 of which make money. There is only so much we can do. Also, where we've got over-sized stores, we will re-size where we get the opportunity. This year we've surrendered 71,000 square feet of space saving the business an annualised £1.5 million. But in the main we need to work as hard as we can to drive the space that we occupy. So our focus is on better utilising our space, and driving profitable sales growth to keep the number of loss-making stores to an absolute minimum. Our estate has also got to support our digital ambitions. Already, 90% of our online transactions are picked up in-store. Once in-store we've got the advantage of offering extra service which, for us, is a key USP and even more as we move forward over the next two or three years of the strategy. We do need more stores in greater London where we're currently under-represented. So we're focusing on achieving a higher level of stores penetration inside the M25, and we'll also end up closing some stores in the normal course. We intend to maximise lease flexibility so we can manage our estate efficiently from a trading perspective, so break clauses on recent renewals whenever we can, and with our landlords and leveraging our position to mitigate rent increase pressures. So, the summary for me would be I don't anticipate any significant change in store numbers over the next few years. I'm sure we will have a few less but nothing dramatic.

If we turn now to spend some time and look at the look and feel of our stores. This is an area where we've got much to do just to bring our estate up to an acceptable standard, because the majority of our stores now significantly lag behind our customers' expectations and the feel of our stores also fuels the impression that our offer is tired and boring. All in all, I reckon we've got about two-thirds of our estate that we feel is below par, and just not good enough for the evolved needs of the business and the expectations of today's customers, especially cyclists where a fresh and modern-feeling store environment is so important. A key part of our plan is about positioning the business so we can really take advantage of the growth that is forecast in cycling.

So we need to make a step change in the look and feel of our stores. There is some significant investment that we need to make in our estate. Over the next three years we plan to spend approximately £50 million across two-thirds of our estate, so I would think that by 2016 all our stores will have received new cycling departments and we'll be satisfied that our cycling departments are up-to-date and probably around 150 of our stores will have received full refreshes. This activity is going to bring our estate up to a standard where we need to be. It is not about delivering the best retail estate out there. We'll still have a tail in 2016. We still have some poor stores. But we won't be in a different position to a lot of other people out there, whereas now we are. We've got some serious catching-up to do. The activity of bringing our estate up-to-date we're reviewing like all our investments and against a do-nothing scenario we're targeting an ARR of 12%. Fundamentally in a lot of our stores we just don't have a choice. We have to make this investment.

Last year we made a start at designing a store format for the future, a trial design at three stores, so-called lab stores. I know many of you have seen those stores. We've reviewed the progress of these stores throughout the year. There genuinely are some real positives and some really useful and important learnings. But, given the amount of money that we plan to invest across our estate, I think we can do better. In particular, I want the stores to feel less sterile and to up the level of emotional engagement as well as the trading intensity.

To create the full-store refurb design for the future rollout, we have initiated a project called 50:39. We could do a quiz and I could see if anyone knows the relevance of that but I'll just tell you. It was Bradley Wiggins' winning time in the London Olympics time trials. We want these stores to really up the level of emotional engagement, provide a more coherent customer journey, a focus on one centralised desk to support sales and service, introduce more live displays, brings our cycle repair and WeFit offer to the fore and support us to trade the overall store environment. These are some sketches here as to what the internals of the store is developing into. You can see us really screaming on the outside of the store, "We fit car parts, we repair bikes". That's one of the challenges. It's got to be obvious as you go into our stores, so I think it's pretty obvious what we do.

Work is well underway. We're not starting it now. I anticipate that we'll have three stores up and running in the new format: so they'll be York, Coventry and Evesham, by the end of the summer. So it would be great to be able to show you these stores early autumn and talk you through what we're doing and how we plan to take it forward. Overall, by the end of the financial year, I'd anticipate that we'd have 10 to 15 stores up and running in the new format and by the end of FY16 we'll have fully refurbished, as I said, 150 stores.

If I turn to infrastructure, I'll look first at our supply chain. The first thing I'd like to say and acknowledge is the business has done some great work here in opening our new distribution centre in Coventry and turning the Redditch warehouse into the country's largest cycle DC. But we've now got to take the next steps, so our supply chain needs to support our service focus in store, our consistent stock-availability and our digital ambitions.

We have started a trial of air-lock deliveries. I don't know whether people are fully familiar with that. It's where stock is delivered overnight and it can be worked first thing in the morning before the store opens. Store colleagues are so task-focused and understandably so that when you're stocking shelves you're blind to customers. I defy anyone to go into our store and if you've got a big delivery to work, to actually notice customers is very difficult, hence the importance of working stock outside key trading hours. So there's a time to get stock out and there's a time to focus on customers, but we absolutely don't want to incur the costs of night shifts. The business won't support that, so it's working that stock out of peak hours.

We've got work to do still to review our multichannel infrastructure, so that we've got a seamless process in store and online and we've also got work to do still to review the operations of our fleet. I suspect we'll get into that at the start of the next year but we feel that the associated costs have been covered in the numbers that we've laid out.

If I move on when it comes to IT, our systems - not unlike other retailers' and there've been plenty of announcements over the past couple of weeks - are out of date and need some work. As the business has developed, existing systems have been bolted on to reflect increasing demands of the business. Unfortunately, this has been done in an ineffective way that has added huge complexity and cost to the business, so we need to have an IT platform to prepare us for the future. With a bit of time and investment it's all eminently fixable. We've recruited an IT director. She's started. For years the business did without one and I've asked Andrew to assume responsibility for IT from a board perspective which he was delighted to do. In the short-term we've got a number of core infrastructure projects that need completion. These are must-dos to an extent and merely sort out the plumbing, so a datacentre relocation, a SAP upgrade - otherwise our system is going to be unsupported - and a new store voice and data network. Beyond this we'll look to invest in scalable systems that support our digital and our service growth ambitions. Together with our digital plans, we will invest around £38 million over the next three years in our systems.

Last but absolutely not least, I see the enhancing and building of our digital proposition as a critical route to driving future top-line growth and pivotal to the ongoing relevant of Halfords. We've got to be able to click with the digital future and we have to make sure that we're positioned for the digital era. So our ambition is to create a really service-led digital proposition. Of all retailers Halfords has to have the opportunity to be truly multichannel, combining the best of the web with friendly expertise in stores.

We completed four weeks ago a three-month review. We looked at every area of our digital proposition and our review concluded that our current multichannel proposition, although not broken at all, is inconsistent. Our site can be frustrating, resulting in an unsatisfactory customer experience and, unfortunately, another area of the business with a really low net promoter score. It also identified the need for clarity around our pricing policy, and on top of previous work that we've undertaken and the importance of PACs that we're about to launch to support us competing with the online pure-plays. But we've got to leverage our in-store expertise to differentiate us from the competition.

So central to the work that we're going to do on digital is the launch of a brand new website. We've got a really clear plan in place to do that. We're going to try and do that by the end of this financial year. Our website will be aligned around our three product pillars. So, if you're a cyclist, you'll shop in a dedicated cycling site where we're not going to be trying to sell you engine oil, maybe just a few energy bars, but we need to position ourselves to compete effectively with some of the pure-play online focused retailers. We're then going to develop this into a cycle shop that we can be proud of so that, by the end of the 2014 calendar year, we've got community features: live chats, integrated dynamic content, a really strong site. It's going to be easier to search and navigate and again, really importantly for me because mobile and tablet currently accounts for about 24% of all online sales, by the end of this financial year I want our site optimised for these devices. Every bit of research you read says that over the next few years sales from these sources are going to double, so 50% of our online sales in time will come from tables and mobile phones, so very clear. I want Halfords to be a market-leading integrated multichannel business centred around three pillars.

There's also the online fulfilment aspect of the plan. We need to improve our reserve and collect service, our returns capabilities, our customer account management, support our colleagues in-store to deliver really differentiated service. But the detail of how we support multichannel going forward will flow from how PACs works and - as I said - that's something that we will address in a few months' time and start work on in a few months' time.

So, in summary, Getting Into Gear I think really identifies the key priorities that are going to help reposition the Halfords business and leverage the expertise of our colleagues. We've got some really detailed and clear action plans in place. I'm personally absolutely convinced about the plans we're presenting and it's great to see the business so enthusiastic for the challenge ahead. I'm really looking forward to delivering them with the Halfords team. Through the initiatives that we've put in place, we'll create a specialist retail with complete authority in our category areas. We'll stock innovative ranges that excite and delight our customers. Our stores will inspire our customers, from a cycle perspective, and be places where people want to shop and where people will be greeted by knowledgeable colleagues who offer friendly expertise.

Over the three-year period of the plan we're going to be investing about £100 million in retail capital expenditure, which is about £40 million more than previous guidance. Around £50 million of that total is going to be targeted directly at stores. I believe that these actions and investments will generate sustainable profit growth but I recognise it's imperative that - both internally and externally - we've got really clear operational milestones in place. These may not be hard PBT numbers but if we make the progress that I believe we will against the milestones, then sustainable profitability will flow.

So this is an extract of some of our milestones. So if I start with colleague milestones, by the end of FY14 I would hope that all colleagues that qualify will have completed Gear 1. By the end of FY15, 50% of colleagues will have completed Gear-2, rising to 80% by the end of FY16. Also by then we'll have two Gear-3 colleagues per store. Over the next three years we'll progressively reduce the number of colleagues leaving the business within the first three months, so at the moment three months after joining stores about 21% of people have left. It's very difficult to run a business when that's happening, so our objective is to halve that over the next couple of years. Then linked in, we want to build our colleague engagement score to 85%, which is getting close to matching the very best of retailers.

To return to our operational milestones, we want to open 20-30 autocentres a year. PACs is a couple of weeks away from being launched but we then want to grow that 20% a year. We want to keep on growing cycle repair against a much higher base at 25% a year. I've set out there our strategy around updating our cycle departments. Over the next three years we want to modernise all our cycle departments and then fully refurbish around 150 stores. As I've already talked you through, by the end of the financial year we want to have launched a new website and make sure the website's optimised for mobile and tablet access.

Our customer objectives: we want to take by FY16 our net promoter score to more than 70 and within two years I want to have the majority of stores working their stock outside opening hours. I don't mean 51% when I say the majority. When I say the majority I mean pretty much all our stores, because I believe it is so important that we separate the working of stock away from the focus on customer service so that we can deliver the type of customer service that we aspire to. All this builds to our clear sales target which is to deliver £1 billion worth of group sales in FY16. I think this is a really ambitious but achievable goal flowing from the strategy that we're talking through today.

I can see a lot of people out there who are in desperate need of a cup of coffee. I could certainly murder a cup of coffee, so thank you very much for listening. After the break Andrew will give you the investment details of our Getting Into Gear programme, I'll sum up and then we'll dive into Q&A. Thanks very much, everyone.

(break in recording)

ANDREW FINDLAY: Please, that'd be great. Thanks very much.

(music)

(1 minute and 35 seconds of silence

ANDREW FINDLAY: Okay, thanks, everyone. We'll now go into the second section of the morning where I'll take you through the financial implications of the plans Matt went through before the break. With Matt then wrapping up the formal presentation, we'll be happy to answer your questions.

If you look at retail capex first, as you may know, we normally guide up to £20 million per year through a combination of maintenance and expansionary elements. Some of this capex spend will be redirected to support the plans Matt has outlined earlier.

Looking at stores, in FY14 we are anticipating investing around £15 million during the year. Much of this and subsequent years' expenditure is, frankly, catch-up to get our store estate back in line with what our customers of today expect. FY14 includes approximately 10 to 15 stores with a fresher store environment, around 8 to 10 right-sizes and relocations, trading space reallocation and revised cycle segmentation in around 100 stores, up to 10 new store colleague training facilities, plus priority investment in some of our poorest stores. As Matt said earlier, in FY15 and FY16 we will catch up and refurb the environment of up to a further 135 stores, plus upgrade the remainder of our cycling departments, bringing stores up to a standard that we and our customers are happy with.

Within digital and IT, a high proportion of this expenditure relates to areas where we have little choice, as Matt referred to, in sorting out the plumbing. This is particularly the case in FY14, which includes a SAP upgrade, a data centre relocation, upgraded store PIN entry devices and a new store voice and data network. These figures also include investment to support our digital aspirations as outlined by Matt, plus investment in vehicle registration lookup screens across much of our estate. The investments in the outer years will look to support our aspirations and improve store systems.

In total, the investment of around £100 million in retail capital expenditure over the three-year period compares to a total investment according to our prior annual guidance of up to £60 million, so an incremental £40 million.

If we now turn to retail operating costs, I have focused here on cash and the numbers shown any depreciation, amortisation or one-off impairment impacts of our capital investment programme. The table illustrates our anticipated incremental cash operating expenditure in FY14 against FY13.

The key area of incremental ongoing opex investment will be to support our service revolution and includes incremental hours to provide a better in-store service, the first pay awards from the first stage of the 3-Gears programme and underlying minimum wage increases, plus investment in training to support the delivery of friendly expertise. We anticipate that the annualisation of this committed investment plus the payments for the 3-Gears will impact FY15 by half as much again, so that is up to £7 million in FY14 and a further £3-4 million on top of this in FY15. This particular investment will be the most important investment we make in the next three years. It will take time to take effect but - as Matt described - it is designed to deliver revenue growth as we leverage the expertise in-store to hit our FY16 £1 billion group revenue target. The incremental hours will be managed centrally. We currently are doing everything we can in the support centre to reduce non-customer facing tasks from our store colleagues so they have more time to spend with customers. To the extent we don't need to allocate incremental hours, we will not.

To support the anticipated incremental sales in FY14 from the fitting of parts and cycle repair, we anticipate a further £7 million of operating costs. This will be dependent on volume or will be performance-related and includes the revised store-based sales and customer service incentives, plus the incentives for our support centre colleagues.

Within supply chain, the uplift of £4 million solely reflects the anticipated success of our digital plans, the FY14 PACs launch, in particular, and so is also dependent on volumes with the underlying DC efficiency gains continuing to offset pressures from inflation. The uplift in store-related and other costs include investment particularly in stores, IT and digital that cannot be capitalised. We will continue to mitigate ongoing rental uplifts by continued renegotiation of leases.

As referred to by Matt, there is one more significant area of one-off investment in FY14 as part of our focus to drive the top-line, being retail stock. As mentioned over the last few announcements, we have taken time to clear out a lot of our old inventories and clean up our back shops. We have a small way to go and some lines are better cleared during the summer than winter, but the majority has been exited. During FY14, against this historic low, we plan to invest an incremental £15-20 million. Some of this is an element of stock rebuild but it also reflects our intention to materially increase availability in stores and specifically support a significant level of range changes, particularly in cycles, later in the year.

A smaller though crucial investment is also in PACs where although the majority of fulfilment will be back-to-back through our suppliers, around 20% of the SCUs will be stocked in our distribution centre, requiring an element of stockholding. The management of PAC stock will be under continuing review as we assess the performance of our 16 dropship vendors and their ability to deliver against our service proposition. This overall working capital is designed - like the capex and opex increases - to deliver sustainable and profitable revenue growth as we target the £1 billion of sales.

As I mentioned earlier, I thought it'd be helpful to give you some help in understanding the likely medium-term movements in our margin percentages, though as you know our primary focus is cash returns. Looking at retail first, we are clear that this will continue to be a 50% plus gross margin business. Our trading stance will impact the margin percentage as we both employ a more aggressive clearance position and take risks with the more innovative offers Matt alluded to. As an example of our new stance, you'll increasingly see more WIGIGs in store to generate excitement and more clear-as-we-go activity. Our plans to grow PACs and greater leverage online both inherently skewed to dilutive third party brands are really to ensure we are competitive but also influence gross margins throughout the medium term. But to be clear, initiatives such as PACs are cash accretive and particularly attractive given our relatively low market share.

Offsetting some of these at a percentage level will be the continuing prospects for accretive in-store service income such as car maintenance, fitting and cycle repair. Despite the continuing inflationary pressures in the Far East, as in FY13 we will continue to mitigate where we can by the leveraging of our extensive supply chain and buying advantage. Focusing on the more cash-relevant measure of EBITDA margin, on average we anticipate a low double-digit percentage driven by sales, cash gross margin and the opex investments outlined earlier.

Looking at autocentres, we are planning for a broadly flat gross margin as we approach the peak dilutive tyre participation. As we scale up, we'll continue to leverage our suppliers, while a refocus on core service, MOT and repair sales will also mitigate any additional pressures on gross margin percentage. The autocentres EBITDA margin should remain at mid to high single digits as we plan for continued market share growth focused on cash profit and drive further utilisation improvements.

Given the investments we are making to grow the business, I want to give you clarity on gearing levels. During this period of investment the board recognises a gearing level of no more than circa 1.5 times net debt to EBITDA to be appropriate, although I anticipate the long-term average settling possibly below that. This cap is partly informed by our capital allocation priorities summarised on the slide. Over the next three years our clear priority is for investment for growth. Unless there is a compelling strategic opportunity relating to our existing three pillars, acquisitions of any scale are not in our plans. Throughout, we remain fully aware of the importance of appropriate, attractive and sustainable levels of dividend, and we will continue to manage the right level of debt for the business and our refinancing later will reflect this.

As there has traditionally been a lot of focus on the Halfords dividend, I want to be really clear on our policy going forward. As I mentioned before the break, given the need to invest in this business whilst maintaining an appropriate and sustainable level of debt, the board has decided to recommend a reduction in the final dividend of 35%. We intend to rebase future dividends to a level more prudently covered by future earnings subject to the gearing policy I set out earlier. To help you further, I anticipate this will have the effect of resetting the FY14 full-year dividend to around 14p per share and we would look to remain at around this level as we approach nearer two times earnings cover over the medium term. This would represent a more sustainable level for the business.

This is not a decision the board has taken lightly and we continue to recognise just how important a healthy dividend is to our shareholders. Fundamental to our profit growth plans is the delivery of sustainable, long-term shareholder returns. We believe this is a more appropriate policy and the investments we intend to make and the operational plans already underway in the business are intended to secure the delivery of these returns.

To summarise our specific guidance for the new financial year, we anticipate our retail operating costs increasing by around 6%, however a significant proportion of which will be subject to volumes and performance. Our retail gross margin is expected to decline by 125 to 175 basis points, reflecting the fact, as I have already outlined. Total retail capex will be around £32 million with autocentres capex at £6 million. Autocentres EBITDA is expected to be marginally ahead of the FY13 performance with further growth in FY15 and FY16. Below EBIT, the net finance costs are expected to be marginally lower than FY13, including the impact of the refinancing process. Our effective tax is likely to be in the range of 23-24% and this is not affected by the potential one-off tax payment of around £20 million referred to earlier.

Finally, a piece of news that a number of you will be pleased with and that will reduce your workload going forward. Given the proximity of our pre-close statements to our interim prelim announcements, we'll no longer publish pre-close statements in April and October. We will report four times a year through results and interim management statements as opposed to six times a year now. I'll now hand you back to Matt.

MATT DAVIES: Thanks, Andrew. There are an awful lot of moving components. Let me just give you my take. My take is that profits through to March 2014 and 2015 will be down a bit as we invest. However, by 2016 our plans are that we would bounce back to exceed existing levels of group EBITDA, so that's where we are.

There's a huge amount to be cheerful about at Halfords. I know there's some bad news around having to invest and dividends, but I want us to remain upbeat because we can reposition this business. Many of our strategic projects that will do that are already underway.

So if I just talk you through this slide, we've just received back the results of this year's colleague engagement survey. It shows that we've made great progress on last year's results. We've taken our engagement score already from 64% to 77%. If you go into our stores, I believe you're starting to see a change in retail standards across the business.

The 3-Gears programme was launched to our managers at the spring conference and the first training is just getting underway. We've got a new recruitment website up and running. Our new store format plan is taking shape. We've appointed a new advertising agency, Mother, and they're just putting the finishing touches to our summer campaign which is going to be focused this year all around cycling. We have begun trialling out-of-hours delivery to stores. We're about to launch PACs and thousands of new lines are about to go live.

If we go to the next slide, you can see our new management team. This is taking shape with new stars joining strong Halfords leaders, so you've got Rob Swyer as retail director who joined about six weeks ago, you've got David Drury who joined a few months ago as marketing director, Anna Barsby who joined a couple of months ago as IT director and I don't know whether people caught it but we've put an announcement out a few days ago about the appointment of Emma Fox as commercial director. Emma's been with ASDA Wal-Mart for the past 12 years and currently she's marketing director of Wal-Mart Canada but a huge coup for the business to land somebody of her calibre. She'll be responsible for multichannel marketing and commercial.

I'm not sure whether anyone was in our stores over Easter but for the first time we ran a really successful programme of kids' bikes workshops. We've been teaching thousands of kids basic bike maintenance skills and hopefully enthusing the next generation of cyclists and Halfords customers. This gives you a really clear feel to where we're taking the business in terms of it genuinely becoming part of the local community.

I am acutely aware as the CEO of Halfords and a shareholder in Halfords of how unwelcome the cut in dividend we're announcing today may be to some shareholders. But the £15-20 million investment in stock, a potential £20 million catch-up tax payment combined with the vital need for investment and an intention to rebase the dividend to a more appropriate level has led the board to the conclusion that this is the right course.

But, looking forward, I'm really excited. I'm absolutely convinced about the plans we're presenting today. It's really great to see how enthusiastic the business is. I think we fulfil a really important role for our customers. As I said at the outset, they have busy lives and leisure time totally rely on the products and services that we provide. Pretty much every single issue that we've talked about today is solvable through proven routes and through action. We know what we have to do and we've got a really clear and really detailed plan in place to take us forward. We've got a huge competitive advantage if we can just deliver on our promise of service and inspire and excite our customers.

Thank you very much for listening to Andrew and me. It has been a long session and now we'd like to take questions.

FEMALE SPEAKER: So, as we're live streaming today, if we could ask you to talk into the microphone. If you could say your name and where you're from, that would be great. So, Matt, Andrew, do you want to choose where your first question comes from?

ANDREW FINDLAY: I think our friend at the back was first, wasn't he?

MALE SPEAKER: Morning, all. Three quick ones, if I may. There's a KPI you haven't given us: availability currently and what the target is.

More one for Matt or definitely one for Matt: you talked a little bit about how your experiences at Pets At Home had educated what you were doing here from a training and service perspective. Can you just go into a bit more detail on that because we're not all of us necessarily terribly familiar with the Pets At Home story?

Then just the potential for the web to carry an awful lot more lines than potentially you can in-store. What are the numbers in terms of SCUs in store and the potential for the web?

MATT DAVIES: So I'll take the latter two. I'll let Andrew pick up the first one.

ANDREW FINDLAY: Okay, as Matt said, these were a number of operational targets we've shared with you. It's not a complete set and clearly availability is one of those things that we are absolutely focused on internally. It's not something we've disclosed at this stage but it's absolutely something that we need to deliver on and improve upon. So there are a number of other KPIs that we're focused on but we haven't shared them all today.

MATT DAVIES: In terms of Pets At Home, I'm always wary to talk too much about Pets At Home because although both businesses are specialty retailers, there are some significant differences between the two businesses. The best parallel is around expertise. If you look at the 3-Gears programme that we are introducing in Halfords, we introduced a similar programme back in probably 2003 in Pets At Home and the whole basis of the Pets At Home colleague experience flows from that. Their metrics would be colleague turnover around 15% compared to us in the mid-50s, a very small number of leavers within three months and a consistent record of great colleague engagement, so that's where we've taken that from.

In terms of the web, the starting point for us is the launch of PACs in a couple of weeks' time. In total there will be about 15,000 accessory lines online. Of those lines, about 13,000 are exclusively online with roughly a couple of thousand available in-store and as part of our original core online proposition. But it takes us a big step forward from an online perspective.

CHRIS: Chris (inaudible) from Barclays. Three questions from me as well. The first question: what do you think the space allocation that you are going to give to the PACs is going to be in-store? Also because you've talked about margin erosion due to the PACs, how soon do we think about the percentage gross margin and the ASPs(?)? Trying to understand also the gross(?) margin in that area because you've spent quite a bit of time going through that.

The second one is most probably one for Andrew. After the investments that you have done now, given the SAP and all the others do you expect cost savings from fiscal year 2016 onwards or is this a new base where we should expect kind of the normal rate of inflation?

The last one on the flexibility of the costs you've announced for next year. You say that you will judge that related to the volumes, but can you help us a little bit with timing? Depending how your like-for-likes will be doing every quarter, how should we be thinking about your flexible costs for the full year? Thank you.

MATT DAVIES: Okay. I think a lot of that Andrew will pick up. If I could just pick up the space allocation point first around PACs, PACs is predominantly online. We have taken a small element of the PACs range, about 200 to 300 SCUs, and put them in around 60 stores to see what that does for our store offer, take the lessons and then flow it into how we range our stores for next year. But at the moment PACs is predominantly online, so any space allocation in-store is relatively subtle.

If I could pick up the wider point around space allocation, we do envisage over time cycling taking a bit more space. If you look going forward at where our sales would break down, we'd expect cycling to be a little bit more of a percentage, car maintenance to be a little bit higher of a percentage, and car enhancement and leisure to be a touch lower, so that hopefully gives you a good feeling around space.

ANDREW FINDLAY: Margins, Chris. With respect to PACs, PACs is significantly lower margin than our existing accessories business, as you'd expect given it's third-party branded product. With respect to the impact on FY14, it is a big factor given we expect significant uplift in revenues in that area.

With respect to the cash margin impact, you can see what the market share is of our cycle business. You can see the market share of our PACs business. There's clearly an opportunity for us and you can see that there's a big opportunity for incremental bottom-line cash as a result of the entry into that market.

With respect to cost savings, absolutely, the intention is to get our systems back into a place where they're more flexible and if we want to make changes it's not costly which it is at the moment, so if we want to do any changes to our systems it's quite costly to do so. Clearly, from that perspective it'll save both on incremental investment and within IT we anticipate some savings as well, so within IT we should see some savings. That's very clearly the objective for myself and Anna to deliver on over the three-year period.

With respect to flexibility of costs, since the investment in car maintenance parts fitting last year we've developed a model that we look at payroll on a weekly basis and we've got a model that we flex up and down accordingly and it's something that we've already started looking at in Q1 to make sure we flex appropriately the hours in-store based on those sales.

I'm not going to give you any guidance on like-for-likes at this point. I know it's frustrating but it's for you guys to model. But we're absolutely all over the management of payroll investment. As I say, any investment in incremental hours comes to me and Matt before any allocation is made. John?

JOHN STEVENSON: John Stevenson from Peel Hunt. A couple of questions as well, please. Just starting off on space, you say you're happy with the overall number of stores. Do you think you're over spaced in terms of retail footage? Out of interest, how does that fit with the trial stores? How big are those stores? I guess you've said you intend to grow into space to a certain extent but how would you describe this space intensity at the moment?

Secondly, just on price, can you talk a little bit about how you feel about the overall price proposition, both branded and own-brand? I appreciate there's a lot of value particularly in cycling in terms of the value of Boardman and Carrera but beyond that, particularly when you get into the more homogenous products, how do you feel about your price proposition?

MATT DAVIES: Sure, okay. If I pick up in terms of spaced and in terms of are we over spaced in stores, we surrendered about 70,000 square feet in the last financial year as part of business as usual. When we are re-siting a store, one of the things we are always looking to do is to get the right space and we're always looking at opportunities where we can subdivide. But it's very difficult to do. A good example of a store this year would be Chester where we relocated from an absolutely massive unit to a unit which was much more appropriate in terms of size. But there'll be a good few examples of that a year but in the main we have to recognise that we have the space and we've got to work it harder, so we've got to tackle the challenges that we have around over space created from co-enhancements, so the business getting smaller, and use that space.

That feeds on to the trial stores, so Evesham, Coventry and York. One of the things we are trialling is actually moving cycling down from the mezzanine because it's a very small mezzanine there and putting the destination aspects, so the motor business, up there, so that would be an interesting trial.

Picking up the price question, John, you point out rightly that there are areas of our business where we are phenomenal value and cycles is a great example. There are areas of our business around commodity-type products where we are excellent value as well. So, if you take sat nav, generally we are on the button. There are other areas of our business where we have the same challenges around value that any speciality retailer has, so a good example of that area might be car cleaning, for example. But it is how we address it. So if you look at one of the car-cleaning offers as you go into our store, we have a value sponge now a 99p, we have a bucket and we have a big bottle of Turtle Wax shampoo all available at £4, so you create a very strong value impression. Value for a specialist retailer is a complicated question.

The other point I would like to make is around service. To the extent that we can differentiate our offer by adding value, then we move away from just the pure "who's that price, who's that price". The best example of that would probably be 3Bs where people are very happy to pay £10 for a bulb and roughly £5 to fit it because it's phenomenal value vis-à-vis going to a dealership and asking them to do it for you. So hopefully that answers the questions around that.

JOHN STEVENSON: Are you happy with the current price proposition?

MATT DAVIES: There's work to do around the current price proposition but there always is work to do around the current price proposition, so I talked about some of the things we're doing with car cleaning. I'll give you another example around child seats. At the moment we have differential pricing between child seats online and child seats in-store. We're just about to launch a trial where effectively we're adjusting all our child seat prices in-store to reflect the online prices and see what that does. But it's a question of understanding price elasticity, understanding what a real value halo(?) is for customers, what insults customers from a pricing perspective and then devising your trading strategy flowing from that. But let's be clear. For any speciality retailer, being lowest price across the board is not a credible strategy.

ANDREW FINDLAY: Thanks, John. Jeff?

GEOFF RUDDELL: Hi. Geoff Ruddell, Morgan Stanley. I just wanted to ask you about your cycling business. You gave statistics earlier that said you've got 20% of a £700 million market and that you sold a million bikes a year, so that would suggest your average selling price is about £140. So I guess my question is about how important is something like Boardman? We obviously talk about it a lot but I'm assuming most of your bikes are actually kids' bikes or Apollo bikes. So could you just give us some kind of breakdown between kids and then within adult what is Apollo and what is Carrera and what is Boardman?

MATT DAVIES: Sure. I think the best way of breaking it down would be half of the bikes that we sell are less than £250, so that gives you a very clear indication as to the Halfords cycle business. We are focused on families, as we were talking before, Geoff, and supporting people through their cycling journey.

I don't think we talk about often enough Apollo. Apollo is the biggest bike brand in the UK. It's incredibly important to us from a sales and margin perspective. Later on this year we are re-launching our whole Apollo range, updated spec, updated look and feel, looks superb.

The Boardman question: the sizzle on the sausage would be how I would best describe a brand like Boardman. It's incredibly important to us from a credibility perspective. It's a very powerful way of competing effectively with independent cycle businesses. It gives us a superb price proposition and it's a business that is growing nicely for us and will continue to grow. As I said, the new Boardman range that we launch in September and October takes it to another level.

But I think it is a good point, actually. We should be talking a lot more about Apollo as a brand.

GEOFF RUDDELL: Is Boardman 2% or 3% of your volumes in cycling? Is it that sort of number?

MATT DAVIES: We don't disclose that.

ANDREW FINDLAY: Yes, we don't disclose that.

GEOFF RUDDELL: Just to change tack for Andrew, I think you signed new leases on a dozen or so stores last year when they came to the end of their leases. What was the average change in the rental (overspeaking)

ANDREW FINDLAY: I'll give you some examples. Matt referred to Chester, for example. That space reduced significantly. We have saved around a 60% reduction on the rental bill there. At Chingford we right-sized and we saved around 36%. Stratford was a re-gear and we saw effectively a 10% reduction. So there are significant areas where we've relocated and where we've re-geared such that we've come up to the end of a lease in a very attractive location. Given our covenants and our relationship with the landlord, we've managed to negotiate some savings. As Matt referred to, we've saved an annualised £1.5 million due to the activity on negotiations within FY13.

GEOFF RUDDELL: Okay, thank you.

MATT DAVIES: Okay. Allan?

ADAM COCHRANE: Hi. It's Adam Cochrane from UBS. Two questions, one relatively simple one. On depreciation, can you just give us the guidance over the course of the capex programme, just to see how it phases in, please?

Secondly, when thinking about your problems with staff turnover, you have this, I imagine, dilemma that you under-roster the staff as efficiently as you can for your business but at the same time you've got 20% of staff leaving within three months. It's quite impressively, actually, that you can lose that many. Is it because your store hours are not that acceptable, your wages are in the wrong place? When you've asked these people why they're leaving, what reasons are they giving you?

MATT DAVIES: Sure, I'll let Andrew -- it would be quite interesting if I did the depreciation point and you did (overspeaking)

ANDREW FINDLAY: Depreciation is within the 6% opex guidance. That includes depreciation. Within our retail business, our assets are at the point where they're starting to fall off the asset register, so it's actually broadly flat within FY14. Within the outer years, within the accounts, the depreciation policy is there and we've given you the split by type of spend. So I'll leave you to work through the numbers but it's pretty clear how you can get to that depreciation. But FY14 is pretty flat.

MATT DAVIES: Great question: why do people leave a business? I could spend a long time answering it. I could try and do a succinct answer.

It's all about how those people are recruited, how those people are developed and whether the business tries to save them in the first place. So, if you approach recruitment on the basis that people are ten a penny and easy come, easy go, then you're going to be less focused on it. If you focus your recruitment on the basis of the whole team meets the person, they all decide whether they want this person to be part of their team and they approach the recruitment on the basis that this person's going to be here in five years' time, that ends up with a fundamentally different recruitment decision. So it's getting the right mind-set around recruitment. It's then developing those people and making those people feel valued so that they want to stay in the business.

Then it's also doing what you can to stop those people leaving the business. So a great example would be if somebody needed an extra four hours, if somebody was thinking creatively across two stores, so actually they can work in this store and get six hours and that store and get eight hours and actually having that mind-set that you're trying to do everything you can do to retain somebody.

If you look at our minimum contract lengths, our minimum contract lengths were seven hours. We've changed our minimum contract lengths to 12 hours. I don't see minimum contracts of 12 hours as any barrier to where we want to get to.

ADAM COCHRANE: Some of the people I've spoken to in store were effectively saying they couldn't get enough hours, so if you can't offer them enough hours and another retailer can, is your wage differential sufficient to any other retailer? Is it above average, do you know?

MATT DAVIES: To answer that, one, it's about making sure that you're really clear at the outset when you recruit that person. In terms of our wage rate, the minimum wage at the moment is £6.19 an hour. Our wage rate is £6.19 an hour. So our Gear 1 rate will be £6.19 but for Gear-2 the rate will be £6.70 an hour. That's not making people millionaires and you can get more to scan a cabbage on a till in Tesco than £6.70 an hour. But what it does is it really importantly starts to recognise these people. As we have looked around at employers that do skill-based rates, we are comfortable with that £6.70 rate. We then move through to £7.00 on Gear-3, so it's both aspects, Adam.

ADAM COCHRANE: That's great. Thank you.

ANDREW ABERNATHY(?): My name's Andrew Abernathy(?) from Espirito Santo. Just following on from that, how would you expect the full-time/part-time mix to evolve over the three-year period?

MATT DAVIES: In terms of the overall balance of the business, it's still going to be very heavily part-time. But what we're going to see is we're going to see fewer people, so probably

15-20% less people, who effectively have more hours. So that's the real change in balance that you're going to see.

ANDREW ABERNATHY: The second question is just in terms of the gross margin guidance you've given, can you say roughly how much is mix effect?

ANDREW FINDLAY: We have seen a mix benefit in FY13. It's roughly around 50 basis points. We expect a normalisation of that by FY14, so that gives you a feel around what the impact is.

ANDY MOBBS: Andy Mobbs from Redburn. Two questions. First: could you comment a little bit more on how the £1 billion sales target is built bottom-up by division and by category? I'm particularly interested in any comments on enhancement.

ANDREW FINDLAY: With respect to the £1 billion, no, we haven't given you detail around that. This is very much a target that we absolutely think is achievable and we've got plans in place to deliver on that. What it does mean, I think, and what we have got assumptions around is around what we'd expect within retail to get to that number and we're looking at around 3-4% like-for-like growth. Given the performance in the business and the 10 out of 13 quarters of decline that Matt referred to, that is a big step up in the run-rate of this business.

With respect to enhancement, clearly with 90% of our focus on cycle and car maintenance, you'd anticipate that there'd be an element of decline in the car enhancement business as we focus on the two areas that we absolutely see are huge growth opportunities. So that gives you a rough feel. With respect to autocentres, clearly the continuation of 20 to 30 centres with an underlying like-for-like that we've been seeing, you can roll that through.

ANDY MOBBS: Okay, thanks. The second one is what metrics or measurements are management going to be incentivised on?

MATT DAVIES: Sure. Do you want to answer that, Dennis? Is that aimed at me or our management in the business?

ANDY MOBBS: It's both at store level and also at a top level.

MATT DAVIES: Let me talk about in the business and then I'll hand over to Dennis. There are various metrics in place. If you take stores, the key difference is introducing a service element into the stores' incentive programme, so broadly the stores are incentivised on the basis of sales, added value sales, so typically they would be margin rich-type products or service-type products and then service measures. The two key service measures are net promoter score which we're now measuring through customer feedback and there's a mystery shopper score. That then evolves through the retail structure, so if you look at our field management team, one of their incentives is actually around the turnover within three months. Then, across the departments of the business, the major incentive is overall performance of the business. In terms of the board ...

DENNIS MILLARD: Yes. Just talking first about annual incentives which are laid out in our annual report which we've just signed off, 25% will be based on some of the KPIs that you saw like colleague engagement, net promoter score, number of new outlets open, number of 50:39s that are actually put in place, so they're very key and they're linked inexorably to the strategy.

As far as the long-term incentive programme is concerned, we're in the process now of actually -- we want our shareholders to understand the strategy. We are then consulting with them as to what we believe are realistic and real stretching targets for the management over the next three years, so I'd rather not go into that right now but they will be inexorably linked obviously to the strategy.

CHARLIE MUIR-SANDS: Hi. It's Charlie Muir-Sands at Deutsche Bank. You said at the beginning that you were unhappy with two-thirds of the store estate. You've announced plans to do a full refurbishment of 150 stores, which is only actually one third of the store estate and I assume roughly or perhaps slightly more of the revenue base. I appreciate that obviously all stores will get a cycling shop, but when we think about that, does that mean that beyond 2016 we should expect to see capex remain well elevated and retail above £20 million per year?

MATT DAVIES: I think it's too early to set out what our capital requirements are going to be beyond 2016. I'm comfortable that what we've outlined and gets us into a good position relative to where other retailers are doesn't mean that every store is spic and span and we're 100% because that's just not realistic. It wouldn't be an appropriate use of funds. But it gets us to a point where we're in a good place.

It's very difficult to call quite precisely the number of stores that will receive a refresh benefit over the next two and a half years or so. We've said very specifically that cycling will be the focus, which is why every store will have been visited from a cycling perspective, but you'll also see, Charlie, more than just those 150 stores, so more stores than that will receive an element of love from a refresh perspective.

CHARLIE MUIR-SANDS: Great. I understand the de-emphasis on car enhancement but why did active leisure not fit in a higher priority area given the allegedly attractive structural potential of that business and the specialist nature of that?

MATT DAVIES: Sure. This is a subtle emphasis. This isn't that active leisure and camping aren't important to us because they are. What we are recognising is that we have a very clear reason and route to win in cycling. We have a very clear reason and route to win in motor. But we don't have the space to put in front of customers what would be an offer which we would consider to be the ultimate winning offer from a camping perspective. That means that camping will always be an important part of our business but we have to recognise that there are limitations to the extent that we can trade it. But it doesn't fall away from being important to us at all.

The other element of that third pillar is giving us some trading flexibility to really enthuse our colleagues and our customers. So when I talk about over the future leisure being slightly less relevant, I mean 1% or maybe a bit more than that vis-à-vis where we are at the moment. We are working really hard on how we take our camping offer to a whole new level next year.

ANDY WADE: Thanks. Andy Wade at Numis. You talked about like-for-like of 3% or 4% which obviously gets us up to the £1 billion. Just wondering what your views are and where that comes from. I'm not expecting anything numerical here but just in terms of conversion. Is there a certain amount of lost sales which you know you've got in the pipeline from people just walking away because they're not being served? Have you got a view on where average transaction value or basket and up-selling or are you expecting to get more customers in the door and just a bit of a feel of how that splits out?

ANDREW FINDLAY: It's a combination. We've got a detailed three-year plan that looks at all the business-as-usual activity with overlays around all of the strategic imperatives and initiatives we've got that we're managing on a case-by-case. So we've got business-as-usual. We've got overlays for parts, accessories and clothing. We've got overlays for cycles. We've got overlays and it's built up.

As a board we've taken a synch(?) check to make sure that the mass work with respect to store staffing and resource and requirement needed to deliver on that, so it's both a bottom-up and a top-down approach to deliver on that number. We're absolutely confident that we think we've got the plans in place to do that and we've got the allocation of resource and capability to deliver on that. With the new team in place, everyone's bought into it and they know what they need to do and it's just a matter of finishing off with these questions and answers and getting out there and delivering on it.

MATTHEW MCEACHRAN: Matthew McEachran from Nplus1 Singer. The business has got all the hallmarks of having lost a lot of staff productivity over the last couple of years. Do you have any stats that you can share with us, anything that you might be able to provide that'll maybe help us understand what there might be to come back into the business as moral improves and as the general net promoter score and engagement improve?

MATT DAVIES: From a productivity perspective, we've got some work underway at the moment where we are taking some routines and processes out of stores with the aim of releasing ten hours to support customer service. This is not a business where, as I've looked at it, there's been a huge amount of efficiencies that haven't already been well-managed out of the business. It is very tight.

The call we are having to make is actually where we invest from a resource perspective and that's a very difficult balance because at peak times in any retailer it's never going to feel like there's enough people. You just need to go into John Lewis on a Saturday and try and buy electricals. It's a real challenge vis-à-vis getting the cover in place that you need. Does that answer the question?

MATTHEW MCEACHRAN: Yes, I guess. And just a couple on cycles. The Apollo re-launch: you've highlighted the emphasis of Apollo and the importance of it. When was it last re-launched and is there a significant extension to the range or changes in price points that are about to happen?

MATT DAVIES: I don't know actually when the last one was. I think it was a couple of years ago.

ANDREW FINDLAY: Absolutely. It was in 2011. I think there was a re-launch.

MATT DAVIES: In terms of how much of a move on from the existing Apollo range, huge, I would say, in terms of looking at the offer a couple of days ago. Again, as with Boardman, we had it all set out in a room in terms of old/new, look and feel, technical spec, value for money. I think it'll be a real revolution.

MARK PHOTIADES: Hi, it's Mark Photiades, also from Nplus1 Singer. You talked about the opportunity within the M25 and London. Businesses tried in recent years various formats within London. What is the latest thinking in terms of what the offer has to be? Is it going to be more cycling based? What are the locations that you're going to be targeting?

MATT DAVIES: The answer to that question would be in central London there just aren't the retail parks available, so you have to go down a high street route. At the moment we are playing with the balance of our offer in those stores but they are increasingly becoming more cycle-focused. In terms of within the M25, it's a balance between being patient because the retail sites do exist but they're like hen's teeth and basically sub-optimising. So my preference would be to be patient.

MARK PHOTIADES: Okay. You highlighted the four key hires you made recently. Are there any gaps left in terms of the team you're building around you?

MATT DAVIES: Clearly. My job as CEO is to assess the strategy of the business against the people that are driving the business and make sure we have the right people to deliver against that strategy. But when I look at the retail director that's joined the business and when I look at my new commercial director combined with the marketing director and IT director, I think we've got a lot of talent to support what we need to do over the next three years.

ANDREW FINDLAY: Great. Thanks, everybody. Thanks for your time today. We'll be around for another 10-15 minutes if you want to catch up on questions but I'm afraid we're going to have to shoot after that. So thanks very much.

MATT DAVIES: Thank you.