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OPERATOR: Hello and welcome to the Q1 Interim management Statement for Halfords. I will now pass you over to CEO Matt Davies and group finance director, Andrew Findlay. Gentlemen, please begin.

MATT DAVIES: Thank you. Good morning, everyone. I am Matt Davies, the chief executive of Halfords, and with me is Andrew Findlay, our CFO. I will give you a brief overview of this morning's statements and then Andrew and I will be very happy to take questions.

Overall group revenues were up 8.8% in the quarter. Looking first at retail, our like-for-like sales also increased by 8.8% reflecting better trading execution, some improved retail discipline, but really benefiting from a particularly weak comparative period last year and better weather for us to trade against year-on-year.

So what I thought I would do is spend a little bit of time talking about Cycling, especially because the country is gripped by the Tour de France at the moment, and then give you some sort of headlines around the other categories.

So if we kick off with Cycling, our Cycling sales were up 15.5% year-on-year. We believe that this really strong performance reflects both the strength of our product ranges, the calls we have made around stock over recent months and the growth of interest in Cycling across the country. Our premium range is led by our own brand, Carrera, and our exclusive Boardmans did particularly well, with sales up 22.8%. We re-launched our exclusive carbon-framed Boardman road bikes priced at £999: great, great value. It is proving a really good seller, especially through the Government Cycle to Work initiative, where it fits within the scheme of the £1,000 limit.

We have also been working really closely with Olympic gold medallist Victoria Pendleton to develop a bike brand exclusively with Halfords. So this quarter introduced the new Pendleton Ashwell, which is a traditional woman's hub-geared Cycle priced at £329.99, which has really helped us drive up sales of the Pendleton range by 70% year-on-year.

As you are aware, we launched our wider range of [Cycling] parts and accessories and clothing online. That is a first step but I think a fairly significant step in terms of developing this offer towards a point that we are happy with. Meanwhile our focus on Cycle-wear sales increased [PACs sales] by 32%, which we are really happy with.

For those of you that are TV watchers, hopefully some of you will have seen our TV adverts focused on Cycling at the moment, as I set out at the *Getting into Gear* presentation in the spring and summer for Halfords. It is very, very much now around Cycling and supporting Cycling and building our credibility around Cycling. Then as the year unfolds and the nights get longer we move our focus to Automotive.

So on that note I would just like to headline Automotive performance. Firstly in Car Maintenance, I think our pretty-much unique fitting services have contributed to boosting like-for-like sales by 11.8% and our parts sales by 16.7%.

Moving to Car Enhancement, like-for-like sales increased by 3%, which is the first growth the business has seen in many, many years, primarily driven by some stronger sales of car cleaning. The weather has been dryer year-on-year but we have fundamentally changed the way we merchandise Car Cleaning to make it easier for people to shop and to make it easier for our colleagues to sell.

Then moving on to technology, Sat Nav sales declined. This led to an overall 3.5% fall in Car Technology.

Finally, Travel Solutions, our smallest category, as you are aware. We did see a small improvement in Camping sales as we really traded camping harder over the period but we continued to see declines in Child Seats.

Online Retail sales were better, up by 15.5%, representing 11.4% of total Retail sales and we are really starting to get cracking on the changes to our online proposition that we talked about at our *Getting into Gear* presentation.

If we move the focus away from Retail and turn to Autocentres, where total sales increased by 7.8%, our like-for-like sales declined by 0.9%, which is a disappointing performance given our market share opportunities. We continue to invest to expand our Autocentre estate, opening seven centres in the period and we cracked on with the strategy that we outlined a few weeks ago.

In summary, our Retail performance reflected better trading execution in areas of opportunity; however, the driver for me is a really weak comparative period last year and weather, which is much better for us to trade against. We are now focusing on delivering against the Q2 comparative. We have got some really tough comparatives. The Olympics was last year. That really supported our Cycling business in particular. Strategically we are only in the really early stages of our *Getting into Gear 2016* programme that we outlined a few weeks ago. I think the next big element for me is when Emma joins as our new Commercial Director at the beginning of September because effectively I am babysitting that at the moment. Then our plan is designed to significantly improve our Retail customer experience through the friendly expertise of our colleagues and step changes in our store and online environments. So there is a lot to do but what I was clear about at the time and what we have got to do as a business is to generate sustainable profitable revenue growth. So that is why I am really pleased to report good solid like-for-likes over the course of this quarter.

So Andrew and I are now very happy to take questions.

OPERATOR: Thank you.

Ladies and gentlemen, if you do wish to ask a question could you please press 0 and then 1 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. There will be a brief pause while questions are being registered.

Our first question is from the line of John Stevenson at Peel Hunt. Please go ahead. Your line is now open.

MATT DAVIES: Good morning, John. How are you?

JOHN STEPHENSON: A couple of questions.

First just in terms of Cycling, I wonder if you can comment on whether there is any shift in Cycling ATV over the quarter and that is both the bike price or to the transaction price. Have you been able to sell up in terms of more accessories, add-ons or service plans?

Secondly, and I think you touched on it in the opener, but to what extent, do you think, Q1 has been impacted by I suppose initiative you have put through -- I know it is early days on the strategy -- instore execution is clearly a bit better; summer ranges are better; maybe morale has been a bit galvanised by the update, too. Maybe you could just add a bit more to that.

MATT DAVIES: Okay. So dealing with the second element of the question, John, I think by far and away the biggest driver to our like-for-like performance in Q1 is the weak comp. If you look at where we are on a two-year basis, we are marginally positive, like-for-like. Having said that, commercially I am really pleased that we have been able to trade against more favourable weather and capitalise on the opportunity. We should not take that away from the business.

I think morale is good. There is a lot of change going on at the moment in the business. I think the best example of that would be if I look at the five senior people that historically have run Retail in the business, there is only one of those who is still in the business. So we have a new Retail director and in three of our four divisions we have new divisional managers. So there is an awful lot of change that we are managing at the moment.

The headline for me in terms of what I have seen vis à vis where we were a few months ago, I think our availability has improved. The numbers tell us that. Our availability is up by about 1% across the business, which is a fairly significant amount. And I think overall we have some stronger retail disciplines, which combined with a good atmosphere in stores is helping us take the money. But we shouldn't get away from the fact that by far the most significant element is the comp. Andrew, do you want pick up the question in terms of Cycle ATV?

ANDREW FINDLAY: Yes. Hi, John.

ATV across the business for the quarter is no different to where it was last year. So it is about in line with where we were.

With respect to Cycling, we attach at least one attachment to two thirds of the bikes we sell, which is in line with where we have been historically.

With respect to the ATV particularly in bikes, despite the uplift in premium bikes being so strong, we also saw significant uplift over double-digit in Kids. You know, an equal and opposite pressure on ATV slightly downward, even though we have been selling more premiums. So across the piece it is more or less in line with where we saw the ATV in previous periods.

MATT DAVIES: We are pleased with what we are seeing in our Cycling business in the sense that it is not just Boardman which is delivering for us. As Andrew said, Kids is growing. If you take a relatively small category like Ladies' Hybrid bikes, there we saw sales up by 8.5%, year-on-year.

JOHN STEPHENSON: Okay. Brilliant. Okay. Thank you.

MATT DAVIES: Thanks, John.

OPERATOR: Our next question is from the line of Chris Chaviaras at Barclays. Please go ahead with your question. Your line is now open.

CHRIS CHAVIARAS: Good morning, guys. Three questions from me, please.

So the first one: given that the first quarter was satisfactory, was good, and even though I see that some of the strength comes from services which should potentially have a higher margin, do any of your targets change, the ones that you gave back in May, in terms of the guidance either on margins or on EBITDA? That will be my first question.

MATT DAVIES: Okay. Do you want to give me the next two? We can think about the answers.

CHRIS CHAVIARAS: That's all right.

The second question is about the cost investment. You said back in May that you are going to invest £21 million but not all of that was a course that you will 100% take. Do you confirm or not that give that now sales look on track that you will go ahead with all of it? Or has your view changed there?

Then the third one, may be a bit of a sense or a bit of colour of how big the Cycle Repair opportunity is or it could be and how big PACsat this point is and could be, because I remember you have given targets on the growth back in May. So I would appreciate any kind of colour around numbers.

MATT DAVIES: Okay. So I will answer the last question but I will let Andrew first answer the first two questions.

ANDREW FINDLAY: With respect to margin, our former guidance has not changed. But I can understand, given the strong mix in repair and Car Maintenance during the quarter that we could see sales tipping into the better half of the guidance range that we gave on 23 May. So I think it has helped in Q1 but clearly we have three quarters to go and we have the key period in Q3 around Car Maintenance. But so far margin is doing okay and we can see that tipping into the lower end of that range.

With respect to cost investment, we are very clear within the business that we need to control costs. We are not investing where we don't need to. We were very clear on the 23rd that we have an element that is committed and an element that is not and it is related to variations in performance. But we also within that have an element of costs that Matt and I frankly hold centrally that we allocate as and when needed. So at this point in time, we have no worries with respect to costs. It is in good control. No guidance change. And so far, so good in that regard as well.

MATT DAVIES: Thanks.

All I would add to that is that I was very, very clear at the presentation that what we were asking our shareholders to support us doing is to take a small step back in profitability to make the changes that we need to make. The words that I used were, "This is not about putting a bomb under existing Halfords' profitability; this is about taking a small step back in profitability to support where we need to go".

Finally, in terms of the questions on Cycle Repair and PACs, Cycle Repairs are a small business for us but it is strategically very important because it goes to the overall confidence and authority that we have as a Cycling business, which is why we flagged it up as one of the key KPIs that we want to be measured by and set ourselves the objective of growing the business at 25% a year, which is significant. In terms of PACs, the PACsperformance is not a driver behind the numbers that we have reported or the numbers that we will report over the next year. It is very much early days from a PACsperspective. I am really pleased in terms of there is now a credible accessory offer available to our customers. Having said that, if you compare the Halfords offer to other online offers, particularly in areas like clothing, there still exists a significant gulf. Where we are clear, where we want to get to ultimately on PACs, is the point where the serious Sunday-morning cyclist has no reason to shop anywhere else other than Halfords for Cycling. So that will feed into how we develop that strategy, going forward.

CHRIS CHAVIARAS: In terms of the Cycle Repair area, would you say that it is kind low, very low, single digit, as a percentage of your sales? Is that a fair number, just to get a base?

MATT DAVIES: It is very small.

CHRIS CHAVIARAS: Okay. And may I come a little bit to the guidance? Has the long-term guidance changed? Or do you see that changing at all by the fiscal year 2016 having the same EBITDA as fiscal year 2013? What I am trying to get to is, does the first quarter change at all any of your views. Or you are pleased but you had budgeted for that kind of quarter? Or you were expecting such a performance?

ANDREW FINDLAY: Chris, I think the wording was that the FY16 was <u>at least</u> in line with FY13. That has not changed. Let's be clear. We are concentrating on delivering FY14. We have had a good start with respect to Q1. It is great, always great, to have a good Q1 and a positive like-for-like for both the business and for colleagues in store and in the Redditch support centre. It gets morale up. So we are looking forward to the challenges of Q3 to Q4. But it is all about delivery on FY14. No change to longer term.

And just referring back to that opex question, we do not anticipate changes to our opex numbers that you might have in your models today.

CHRIS CHAVIARAS: Okay.

For interest, do you have any consensus numbers for full year like-for-like from Retail in hand at this point? You know, what consensus are looking for?

ANDREW FINDLAY: No, Chris, we are very clear. We don't -- we haven't given guidance on like-for-like and I don't want to be drawn on that at this point in time. But the consensus we've got out there is around 3 but, you know, that sort of consensus from the models that the guys have sent in. But again, we will make no comment whether that is good, bad or indifferent. We don't want to be drawn on like-for-likes at this point in time. Thanks, Chris.

CHRIS CHAVIARAS: Thank you very much.

OPERATOR: Our next question is from the line of Mark Photiades of N+1 Singer. Please go ahead with your question. Your line is now open.

MATT DAVIES: Morning, Mark.

MARK PHOTIADES: Hi. Can I just touch on Cycling again and maybe could you put some colour on the performance over the quarter, I guess looking at April, May, June?

And then one more on PACs. How are you bearing up in terms of pricing on value lines relative to the online competition?

Then finally, just in terms of you talked about increasing the amount of special buys within the mix. Could you maybe talk about where the special-buy mix was in Q1 and where you anticipate that going in Q2 and then perhaps Q3?

MATT DAVIES: Okay. What was the first?

MARK PHOTIADES: From May to June, Cycling.

MATT DAVIES: Okay. The Cycling business, as everybody is aware, is very weather dependent. The weather wasn't great at the start of the period and improved as the quarter progressed. One doesn't need to be a genius to figure out that that will have been a significant driver around what our Cycle sales were. But if I think around the major factors for our Cycle business, I think you've got the Tour de France factor, which has been building and which will continue for the next few weeks. I think that has supported the increase we have seen in premium bikes, particularly Boardman, where sales were up by nearly 23%. It is worth noting with the Brownlee brothers, Alistair Brownlee won his latest World Series triathlon race in Austria last weekend on a Boardman, making it four wins in a row for the Brownlee brothers on Boardman bikes. So we are showcasing a really powerful Cycle brand now in the UK. Kids' bike sales, we have touched on. We are pleased with that performance. It was up by good double-digit like-for-like, year-on-year. And we've got a lot of work under way at the moment in terms of some Cycling department refreshes in our stores. We have almost completed 100 refreshes, which involves bringing Car

Seats downstairs and incorporating a wider clothing offer on the mezzanine and also improving the Cycle offer on the mezzanine.

MARK PHOTIADES: Did that space reallocation happen towards the end of the period or was that in place from the start?

MATT DAVIES: That space reallocation is literally happening/has happened. So towards the end of the period. It won't have been a significant driver behind the period numbers.

To pick up this sort of special-buy point and let Andrew pick up the pricing point. The special buys are a relatively small element of how we are going to develop the overall theatre for our customers and will be picked up by Emma when she joins as Commercial Director. But so far the kayak count up is 1,000 that we have bought and we have sold about 450. So we're not going to become millionaires from selling kayaks but thankfully we won't be left with too many to clear.

ANDREW FINDLAY: Mark, just to touch on the quarter, as Matt said, in April it was wetter but we did sell a load of turbo trainers during that period and that was up 235% in the period as people wanted to put their riding indoors. But as the period has gone, obviously the weather has helped. But also other things: where we have advertised, the advertising that came on half way through the quarter on TV, and then we had the Cycle repair advert in the press, which is the first time we have done that.

With respect to special buys, we will continually buy where we think there's an opportunity. Particularly around Christmas gifting is key. We've got some good ranges on Raleigh that we've got in store at the moment. With respect to the Boardman carbon, that' s coming in at £999, which is a real sweet spot with respect to the carbon and Cycle to Work. And we've got 10% off selected road bikes at the moment. We've got some deals on Boardman as we stand, which is great. But all of these things have been planned and they are in the promotional plan as we stand now. So very much from our perspective, if we can see that there's an opportunity to generate incremental cash by buying in special buys or buying an incremental line in that creates customer excitement or excitement in store, we will continue to do so.

MATT DAVIES: Part of the course that we made around Christmas time when it was clear that we needed to invest some more money in stock to support our availability was specifically around Cycling. So we really stepped up our stock commitment to Cycles around Christmas which is feeding into the business now, which is good given the level of Cycle sales.

Pricing on PACs, we have been price competitive. We have been running a very strong 20%-off accessories offer which has just finished and like the other online players we are constantly watching where other people's prices are, using technology. So I am comfortable from a pricing perspective generally. That is not going to hold back PACs business. We strategically, though, have some fair work to do before the next Cycle season to augment and strengthen areas of our PACs off, like clothing.

MARK PHOTIADES: Great. Okay. Thanks very much.

OPERATOR: Our next question is from the line Simon Bowler at Exane BNP Parisbas. Please go ahead with your question. Your line is now open.

SIMON BOWLER: Hi, guys. A very quick question around the comment you made on Car Cleaning where you talked about you had been marketing and merchandising that better. I just wonder if you could expand on that at all as to what you have been doing there and whether there are other areas you can take those learnings across to in the business.

MATT DAVIES: Yes. Basically what we have done in Car Cleaning is we have brand blocked so it is a much more powerful execution to a customer and it is much easier for colleagues to talk people through particular ranges when the Autoglym range is in one place together, looking incredibly powerful from a specialist perspective rather than moving around sections of the store. Continually challenging the way we merchandise and making it easier for our customers to shop and making it easier for our colleagues to sell and advise customers is a core part of how we will trade the business over the coming year.

SIMON BOWLER: Okay. Great. And for the broader Car Enhancement category, are you hoping to continue moving that category back into growth? I know it has been mentioned before, if not specifically by yourself, that you can see structural declines coming through in that category.

MATT DAVIES: I think it is a very challenging category to develop growth from because of the drag that we will continue to see for a period of time in areas like that now. So I think it is a very, very challenging category to be confident that you can deliver consistent growth from.

SIMON BOWLER: Okay. Thank you very much for that.

MATT DAVIES: Thanks a lot. Cheers, Simon.

OPERATOR: Our next question is from the line of Charlie Muir-Sands at Deutsche Bank. Please go ahead. Your line is now open.

CHARLIE MUIR-SANDS: Good morning, guys. A three-parter.

Firstly a question on the quarterly performance, trying to understand if there is any underlying other drivers.

Was clearance still a major factor in this quarter? And also, what do you think the drag from the lack of Easter might have been?

MATT DAVIES: I'll let Andrew answer that.

ANDREW FINDLAY: Hi, Charlie. Yes, Easter as you know, impacted Q4; we get a benefit in Q4 of around 1%. And you will see an equal and opposite effect in Q1 given the timing of the run up to Easter. So actually the underlying performance was marginally better than you see today.

With respect to clearance, I think the only area was really Camping; Camping product that we have had for a while. But the rest of the business, no. We did a pretty good job in the remainder of FY13.

MATT DAVIES: I think without clearance our camping numbers wouldn't have been positive. There's no other area of the business where I think clearance distorts the picture at all. Just business as usual.

CHARLIE MUIR-SANDS: Fantastic.

And just on the availability, when you said it was up 1%. Can you give some context to where are you now? Or where were you? Or how far in the journey of improving availability are you?

MATT DAVIES: We have had some relatively quick, easy wins by getting people focused on counting in stores and by introducing some technology to support people counts. The other thing we have done is we have been bolder in some areas from a stock perspective, changing our attitude towards having gaps in our stores. We won't have gaps in our stores. We don't want gaps in our stores. We aren't going to design our business to support a level of gaps. We are going to aspire to have no gaps. So that has come through and we are really pleased with that. There is a lot work going on to make sure that the proposition that our customer sees across stores is consistent. But that will take time to feed through. I think probably the big win from availability, we've probably done in the period.

CHARLIE MUIR-SANDS: Great. Thank you very much.

OPERATOR: Our next question is from the line of Sam Hart at Charles Stanley. Please go ahead. Your line is now open.

SAM HART: Good morning.

With regards to Autocentres, you have commented on a currently quite adverse fleet market. I was wondering if you could possibly just give a little bit of additional commentary on exactly what is going on in the fleet market and also the outlook as well in terms of the key drivers within that segment.

MATT DAVIES: I think what I would say before delving into the market is that despite the market's performance in fleet, we are disappointed with where our performance is and there is lots of work going on within the business to address what we are seeing at the moment and to put us back on a footing to deliver some growth to the fleet market. The overall factors that are driving the fleet market are as outlined at the *Getting into Gear* presentation but I would not want to leave people with a sense that this is all market; we are disappointed with our performance.

SAM HART: Okay. Thank you.

OPERATOR: As there are not further question, gentlemen, may I please pass the call back to you to close.

MATT DAVIES: Thank you very much, everyone. Thank you for joining the call today. Our next reporting date will be at the interim results on 7 November and as per usual, if you have any further questions, then contact Craig Marks, our Head of Investor Relations. In the meanwhile, enjoy the Tour de France and enjoy the nice weather. Thanks a lot.

OPERATOR: This now concludes the call. Thank you all very much for attending. You may now disconnect your lines.