

## Our Marketplace

### Competitive landscape

Halfords principally operates in two broad markets: Motoring and Cycling. Around 70% of Group sales are generated from products and services that are principally Motoring related with the remaining 30% coming from Cycling.

At a profit level, the contribution of Motoring is even greater. These markets continue to display generally favourable trends and we are particularly well placed to capitalise on them, given our strong service and services proposition, technical expertise and geographic footprint.

Service and services are key differentiators for us, providing us with a unique advantage over much of the competition that are either generalist or fragmented independents. This is reflected in two key statistics: 80% of our customers want some form of advice or service with their purchase and around 85% of online sales on Halfords.com are collected in store.

Our *Moving Up A Gear* strategy is aimed at strengthening our position as a customer centric, service-led specialist retailer. This, combined with our leading positions in fragmented markets, gives us clear competitive advantages and a solid platform from which to drive sustainable long-term growth.

### Motoring Market

#### Market share and competitive landscape

Within Motoring, the Halfords Group operates in two segments:

- Car parts, accessories, consumables and technology, with a total market worth up to an estimated £7bn. This element of the Motoring market has grown by around 3% per annum in the last few years. Halfords Retail competes in a portion of this market, holding around a 15% market share.
- Car servicing and aftercare, with a total market worth around £9bn. This element of the market has grown by around 2% per annum in the last few years and is where Autocentres competes, holding around 1.5% share of a highly fragmented market.

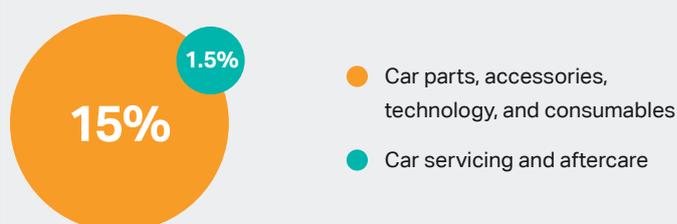
There is no single equivalent competitor of Halfords in the UK and these motoring markets are highly fragmented. There are over 30,000 garages in the UK of which two-thirds are estimated to be independents.

#### Market trends

New car registrations have grown consistently year on year between 2012 and 2016. After a record year for new car registrations in 2016, the Society of Motor Manufacturers and Traders ("SMMT") has forecast a decline in new car registrations of 2.6% in 2017. A reduction in new car registrations typically results in used cars being held onto for a longer time period. Combined with a strong pipeline of cars feeding into the used car category, this means that we anticipate the used car parc to grow in the years ahead. This will be a positive trend for Halfords given that we predominantly support cars that are over three years old, what we call the "second life of the car".

Cars are also becoming more complex and customers increasingly need support for small as well as large maintenance jobs. We are seeing an on going trend from 'do it yourself' to 'do it for me', which plays strongly to our service and services proposition. Our own market research indicates that 80% of Halfords customers want advice or service with their purchase. We also identified that 75% of UK consumers have medium to low expertise in DIY and are therefore more inclined to pay for someone else to "do it for them". We continue to invest in training and equipment to ensure that we remain at the forefront of technological changes, such as having the ability to replace stop-start batteries on-demand and being able to service electric and hybrid vehicles. We estimate that over 50% of the market for car servicing and aftercare is represented by independents, who are finding it increasingly challenging to meet the increasing complexities of cars and their parts.

#### Halfords Share of the Motoring market



We continue to see good growth in segments of our in-car technology offering. We are a market leading retailer of in-car cameras ("dash cams") which continued to grow fast in FY17. We are also uniquely placed to offer a fitting service for these products; with around 40% of dash cam sales fitted into the car. Multimedia, connectivity and streaming technology continue to grow as customers look for ways to bring their in-car environment more technologically up-to-date.

The sat nav market continues to decline, but this is becoming an increasingly smaller part of our business, now representing only 3% of Group sales. Across our stores we have an increasing number of accredited child car seat fitters and thousands of colleagues able to fit and provide detailed advice on roof bars and boxes, cycle carriers and number plates. The expert, friendly advice they provide is unique,

loved by our customers and key to our further market share gains in these areas.

The services that we offer alongside our products continue to evolve and we now offer a suite of over 30 in-store services for motoring and cycling, complimenting the continued success of our "3Bs" (bulbs, blades, batteries) fitting and cycle repair services.

Going forward we anticipate the Motoring market in which we operate to continue to grow at an average rate of 2-3% per annum over the medium-term and we continue to aim to better those growth rates through our growing service and services proposition.

## Cycling Market

### Market share and competitive landscape

In Cycling, Halfords has strong market shares of around 26% for bikes, 16% for PACs and 10% for cycle repair. We estimate these markets to be worth annual sales of around £800m, £750m and £100m respectively. The majority of our offer is aimed at mainstream, leisure and family cyclists. However, the recent acquisition of Tredz and Wheelies alongside the development of Cycle Republic means we can now meet the needs of all key customer segments. Over 80% of the bikes sold by the Group are own brands including *Apollo*, the biggest bike brand in the UK by volume, *Carrera*, the biggest bike brand in the UK by value and *Boardman*, the fastest growing premium bike brand in recent years and voted Bike Brand of the year 2017 by BikeBiz. We have added to our own brands this year with the launch of the *Wiggins* range in July 2016, further enhancing our portfolio of exclusive collaborations with Team GB Olympians. Our own brands are supported by selected third party brands, which include *Specialized*, *Giant*, *Cannondale*, *Cube* and *VooDoo*.

The cycling market is highly fragmented. There are an estimated 2,500 bike shops in the UK. Other than Halfords and a small number of chain retailers, the majority of the market is represented by independents. As market leader we conduct extensive research into customer behaviour and trends, as well as the competitive landscape. Over the past year we have identified that the number of independent bike shops in the UK has declined by around 10%.

### Market trends

After a difficult year for the cycling market in 2015 due to a combination of high stock levels and poor weather, 2016 was better. The first part of the year saw a continuation of the conditions observed in 2015 compounded by relatively high stock levels in the market and poor weather, which prompted heavier and earlier discounting by competitors than in previous years. However, the peak summer period benefited from warmer weather and the success of Team GB at the Rio Olympics, as well as discounting across the market, which helped to clear much of the stock that had been building up in the market.

Looking ahead we see good growth prospects for the cycling market for several reasons:

- participation levels in the UK remain much lower than in many other European countries. Despite the increase in popularity of the sport in recent years, the number of bikes sold in the UK has remained broadly flat at an average 3.3m bikes per year;
- the level of female participation also remains very low. Recent data suggests that, in the UK, women make up to 27% of cycle journeys compared to 55% in Denmark and the Netherlands;
- the health and wellbeing benefits associated with cycling;
- government infrastructure investment in London and other UK cities;
- the rapidly growing e-bike segment, which makes cycling more accessible to both commuters and older generations; and
- we are seeing existing participants in the cycling market spending more as they increase the amount they use their bikes.

As evidenced by the differing performance in the early and late summer periods this financial year, the weather will continue to have an impact on the timing of customer purchase, but the overall trends are positive. We expect the cycling market to grow on average at 3-5% per annum and we continue to aim to beat that market growth rate, through growing our service and services proposition.

### Halfords Share of the Cycling Market

