



Exclusive
Tyre Distributors
Building Leading Brands



Hottest and toughest



Financial Results

Six Months to 31 December 2019



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Financial Results



Underlying EBITDA¹ of \$5.0m compared to \$6.4m in the prior corresponding period (PCP). Reported H1 FY20 EBITDA: \$6.4m compared to H1 FY19 EBITDA of \$6.8m.



H1 FY20 NPAT: \$2.5m compared to H1 FY19 NPAT of \$3.8m.



H1 FY20 Revenue \$80.5m compared to H1 FY19 \$83.8m.



H1 FY20 gross margin: 27.0% compared to H1 FY19 gross margin: 30.2%



At 31 December 2019 Net Assets: \$69.5m, Adj Net Tangible Assets²: \$50.2m. Net operating cash flow was up on the PCP.

¹ Underlying EBITDA has been adjusted for unrealised FX and the classification of Occupancy costs due to adopting AASB 16.

² Adj Net Tangible Assets excludes all right-of-use assets and lease liabilities accounted for due to adopting AASB 16 (see page 5).

Trading Highlights



Volume growth in ETD New Zealand, Dynamic Wheels and Statewide offset by contraction in ETD Australia, Top Draw (South Africa) and, to a lesser extent, MPC.



Prices fell at ETD Australia and South Africa as competitor discounting continued. Together with declining volume, lower prices reduced revenue.



Gross margin % lower due to relatively high import prices and intense price competition constraining sell-out price adjustments in some businesses.



Balance Sheet remains strong – net cash: \$5.3 million, with inventories expected to reduce in H2.



Interim Dividend of 1.25 cents per share declared. All dividends are fully franked.

Summary of Results



Statement of Profit or Loss \$'000	H1 FY2020	H1 FY2019
Sales revenue	80,454	83,762
Cost of goods sold	(58,757)	(58,444)
Gross profit	21,697	25,318
Other revenue	-	59
Employee benefits	(8,684)	(9,091)
Marketing	(2,591)	(3,398)
Occupancy	(548)	(2,144)
Other	(3,511)	(3,911)
EBITDA	6,363	6,833
Depreciation and amortisation	(2,313)	(1,306)
Finance costs (net)	(375)	(277)
Net profit before tax	3,675	5,250
Income tax expense	(1,169)	(1,402)
Net profit after tax	2,506	3,848
Addback:		
Non-controlling interest loss/(profit)	8	(231)
Amortisation ¹	1,455	797
NPATA attributable to NTAW	3,969	4,414
Adj NPATA attributable to NTAW	3,072	4,414

¹ Amortisation add-back is net of tax effect.

Comments

- H1 FY20 gross profit margin lower than the prior period due to discounting and increased import prices flowing from less favourable exchange rates and lower than expected supplier support.
- H1 FY20 employee benefits expense has reduced as a result of restructuring implemented at the end of FY19.
- H1 FY20 marketing expenses lower than prior period as less costly promotions were executed as well as no major product launches, unlike H1 FY19.
- Due to the adoption of AASB 16 *Leases*, there is a significant decrease to Occupancy costs and increase to depreciation and amortisation as the actual lease payments are apportioned between depreciation & amortisation and finance costs.
- NPATA attributable to NTD shareholders excludes non-controlling interests (representing the residual 50% interest in Top Draw) & adjusted for amortisation.
- Adj. NPATA excludes the adding back of amortisation of right-of-use assets to be able to provide a current period result which is in line with the prior comparative period.

Balance Sheet & Key Operating Metrics



Statement of Financial Position \$'000	Dec-19	Dec-18
Current assets		
Cash and cash equivalents	17,717	13,580
Trade and other receivables	19,510	20,530
Inventories	54,483	52,532
Other	1,490	1,382
Total current assets	93,200	88,024
Non-current assets		
Property, plant and equipment	3,788	3,925
Right-of-use assets	11,020	-
Intangibles	19,629	21,237
Deferred tax	102	(1)
Total non-current assets	34,539	25,161
Total assets	127,739	113,185
Current liabilities		
Trade and other payables	28,819	26,586
Borrowings	12,393	13,945
Lease liabilities	11,303	-
Derivative financial instruments	795	(600)
Income tax liabilities	165	(67)
Provisions	4,744	4,541
Total liabilities	58,219	44,405
Net assets	69,520	68,780

Comments

- **Cash and cash equivalents** – The Group has cash of \$17.7m at 31 Dec-19, up from \$13.6m at 31 Dec-18. Net cash balance of \$5.3m at 31 Dec-19.
- **Inventory** – Inventories typically rise at the end of H1 to take advantage of end of year deals and to cover the Chinese New Year shutdown. Inventory at 31 Dec-19 was also higher due to lower tyre sales in Australia and South Africa.

Key Operating Metrics	H1 FY2020	H1 FY2019
Gross profit margin	27.00%	30.20%
Operating costs as % of total revenue	19.10%	22.00%
EBITDA margin	7.90%	8.20%

H1 reflects NTD's transitional year



Growth recorded in Dynamic Wheels, Statewide and ETD New Zealand

As disclosed in the summary of FY19 results, FY20 is a transitional year for some NTD businesses as they change product mix and sourcing.

Businesses less sensitive to shifting consumer sentiment and changing product preferences experienced growth in key metrics (volume, revenue and profit). The success of these businesses can be summarised in the following way:

- ❑ Dynamic wheels have a relatively low retail price and, with less complex engineering issues, new wheel products can be brought to market much faster than new tyres;
- ❑ Dynamic wheels are new to South Africa and New Zealand, appealing to early adopters of Dynamic brands in those markets;
- ❑ Statewide offers tyres in the budget category and volume growth reflects a general trend amongst consumers for lower priced alternatives; and
- ❑ From inception, ETD NZ has offered a more diverse array of tyre products covering more vehicle types and price/value points than ETD Australia. The larger premium 4WD segment in New Zealand is not as proportionately large as it is in Australia. For both reasons, ETD NZ is less vulnerable to weak consumer sentiment and falling demand for large premium 4WD products. While acknowledging market differences, the ETD NZ experience indicates that the strategic direction being followed in Australia will succeed in delivering profitable growth.

H1 reflects NTD's transitional year



Unusual import price variations

NTD's suppliers have responded to changing business environments in very different ways:

- ❑ USA tariffs on Chinese tyres and raw materials (used in US manufacturing plants) have coincided with USA manufacturers being less concerned than they have historically been about competitive import prices in NTD markets;
- ❑ Conversely, Chinese manufacturers, facing falling demand from the USA, have lowered prices to move inventory to other markets, including Australia;
- ❑ This environment affects both tyre and wheel imports, except for the fact that NTD does not import wheels from the USA;
- ❑ Import prices paid by NTD in H1 reflect this assortment of supplier behaviour, with Statewide in particular being the beneficiary of lower prices from its suppliers while ETD Australia margins have suffered from being overweight in more expensive tyres sourced from the USA; and
- ❑ Industry wide import prices remained unusually disconnected from the rate of exchange between the AUD/USD, with adverse impacts on the competitiveness of USD importers like ETD Australia.

H1 reflects NTD's transitional year



Challenging market conditions in Australia and South Africa

- ❑ Consumer sentiment in Australia has been relatively negative for some time, with premium durable goods suffering more than other product categories. Consumer preferences continue to shift away from large premium 4WD tyres in favour of less aggressive, lower priced patterns, adversely impacting ETD Australia volumes.
- ❑ Like new car sales, demand for new caravans has slowed with a resulting negative impact on MPC sales.
- ❑ Volume from ETD Australia has also declined with demand from regional customers adversely affected by drought.
- ❑ The closure of Cooper's tyre plant in the UK resulted in the withdrawal of NTD's second biggest selling product in South Africa. The H1 result reflects the consequences of having to source a replacement tyre at a different price point and having it accepted in the market.
- ❑ The Australian tyre industry as a whole remains trapped in a cycle of discounting that is unprecedented, driven by surplus manufacturing capacity (especially amongst commodity sizes) and the emergence of new, lower cost, retail channels. These conditions have impaired the ability of ETD Australia to raise prices and there has been a corresponding negative impact on margins.
- ❑ Relatively negative consumer and business confidence in South Africa has had an impact on large premium 4WD sales in South Africa. These sentiments reflect declining investment and investor confidence as the South African government responds to corruption scandals.
- ❑ Despite these challenging conditions, significant victories have been achieved. For example, the Jax retail chain in Australia has taken up distribution of the Mickey Thompson brand and significant original equipment supply agreements have been entered into with Premcar in Australia and Toyota in South Africa.

NTD's transitional year to continue in H2



NTD responding to market conditions

NTD is executing various strategies to grow profits:

- ❑ While actively promoting its superior premium 4WD products, expanding its product mix to cover other price/value points as well as other vehicle segments, particularly the SUV segment;
- ❑ New products include: **AUST:** Blacklion (budget category) in Passenger, SUV & 4WD launched in Jan 2020, **AUST/NZ:** expanded range of Cooper branded passenger tyres (lower priced/near sourced) launching March 2020, **AUST/NZ/South Africa:** a new lower priced 4WD range launching May/June 2020, **AUST/NZ/South Africa:** Lower priced Cooper 4WD product arriving May/June 2020, **South Africa:** Momo and Blacklion products launched Jan 2020;
- ❑ Utilizing lower priced products from Statewide's range around ETD Australia's branches (similar to what ETD NZ is already offering);
- ❑ In collaboration with key suppliers, shifting manufacturing sources to lower cost countries, reducing import prices to improve gross profits from margins and/or volume. Shipments of these products will begin arriving in May;
- ❑ Altering the structure of some key supply arrangements to focus more on shorter term competitiveness than longer term volume commitments (e.g. changes to the Agreement between Mickey Thompson and ETD Australia);

NTD's transitional year to continue in H2



NTD responding to market conditions (continued)

- ❑ Launching the Statewide business in WA, with the purchase of assets from Industrial Tyre Service providing a base for that expansion;
- ❑ New alloy wheel offerings in all geographic markets and expanding steel wheel sales in NSW, New Zealand and South Africa;
- ❑ Continuing to expand centralising customer care activities in Brisbane, QLD with a concurrent investment in communication technology and experienced call centre personnel;
- ❑ Customer acquisition plans throughout the group;
- ❑ Offering new 4WD products in South Africa sourced from lower cost countries in response to the closure of a Cooper factory in the UK that adversely affected supplies in 2019;
- ❑ Continuing investment in customer loyalty programs;
- ❑ Promotional activities focussed on tapping into changing consumer purchase pathways; and
- ❑ Continuing to pursue the acquisition of tyre and/or wheel wholesale businesses. While not a material transaction, the purchase of assets (at cost) from Industrial Tyre Service to provide a launching pad for Statewide in Western Australia may be a sign of other opportunities to buy assets on favourable terms. NTD retains the capacity to complete similar transactions without raising new capital or incurring burdensome debt.

Outlook - Operations



While the H1 FY20 result is consistent with expectations, the Group is expecting profit to fall below expectations in H2 because:

- ❑ Market conditions are not likely to improve. In particular, pressure from higher import prices, continued discounting by competitors as well as sluggish consumer demand (impacting premium products) will continue to affect volume and margins;
- ❑ While near source procurement will be delayed by 6-8 weeks due to production/delivery issues in China related to the Coronavirus, the Group's other solutions (new products, operating improvements and accessing new distribution channels) remain on track to be completed in Q4 FY20 with the full financial impact of these initiatives arriving in FY21;
- ❑ Support from suppliers to deal with rising import prices has fallen short of expectations and the timing of the limited support received to date means that benefits will not accrue until FY21; and
- ❑ While expenses are below budget in H1, existing commitments will mean that any further cost cutting will not have a material impact until FY21.

The Group has experienced growth in revenue and profit from Statewide, Dynamic and ETD New Zealand. MPC is trading in line with expectations. The H2 outlook is adversely affected by trading expectations from ETD Australia and Top Draw in South Africa, businesses which currently depend on the sale of premium 4WD products. The management team is committed to maintaining the premium segment while also focussing on new segments.

The Group therefore continues to treat FY20 as a year of transition to a broader product base focussing both on premium products and new segments to position all businesses for more robust and sustainable growth after FY20. As a result of the delayed arrival of benefits from various initiatives, the Group expects H2 profits to be lower than previously forecast, with full year FY20 Underlying EBITDA¹ between \$9m-\$10m. Earnings are expected to recover in FY21 as a result of lower import prices and higher volumes.

1. Underlying EBITDA has been adjusted for the classification of Occupancy costs due to adopting AASB 16.

Outlook – Shareholder value



NTD Share Price



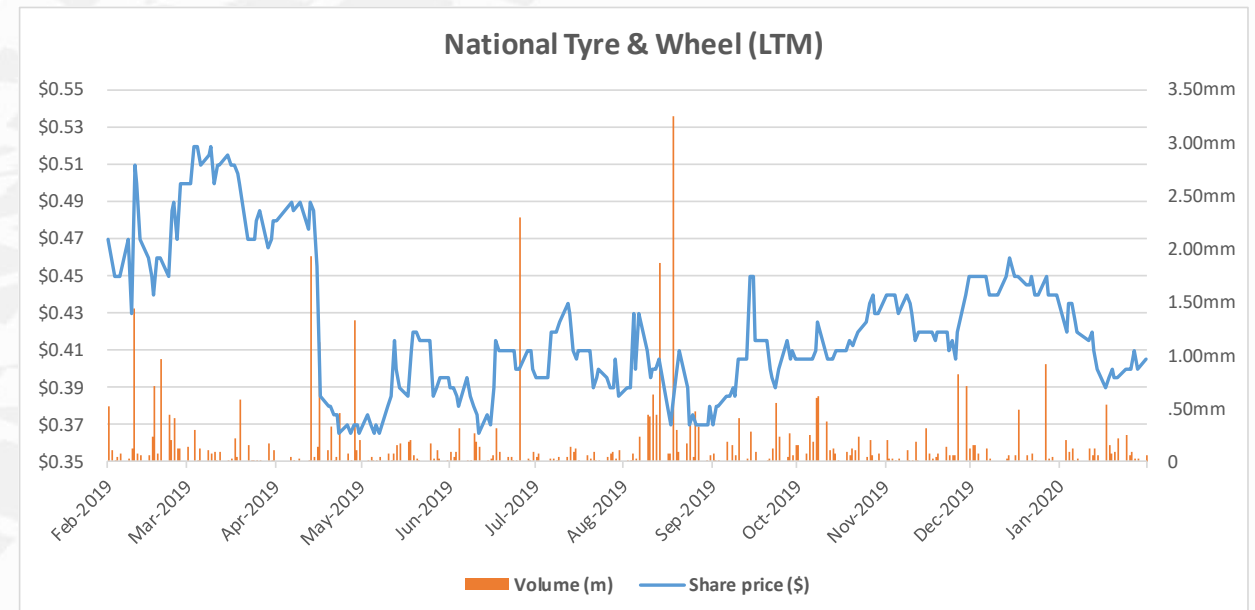
Market Cap at \approx \$41m @ \$0.40 per share
(based on closing price on 24 February 2020)



Net assets at 31 Dec-19: \$69.5m, or \$0.68 per share



Adj NTA¹ at 31 Dec-19: \$50.2m or \$0.49 per share



1. Adj NTA excludes all right-of-use assets and lease liabilities accounted for due to adopting AASB 16 (see page 5)



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Hottest and toughest



Thank you



National Tyre & Wheel – Strong Foundations



- Specialised brand building business focused on tyre & wheel importing and distribution
- Leading position in 4WD/SUV tyres, steel wheels & OEM wheels and tyres to caravan manufacturers
- Long term history of earnings and dividends
- Track record of organic growth and successful M&A – targets have similar customers, suppliers and operating systems
- Future growth to be driven by organic strategies, geographic expansion and M&A opportunities
- Established national distribution footprints in Australia, New Zealand and South Africa
- Low customer concentration.

Experienced Management Team & Board



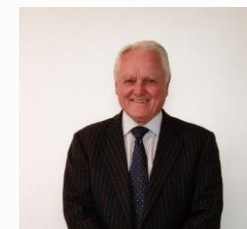
Peter Ludemann
Chief Executive Officer and Managing Director

- CEO since 2013 as NTD grew, diversified and listed on ASX
- M&A background, successful integration of 6 key acquisitions since 2013



Jason Lamb
Chief Financial Officer and Company Secretary

- CFO for 10+ years
- Integral part of NTD senior management



Murray Boyte
Chairman

- Experienced and distinguished public Company Director
- Extensive merchant banking and management experience



Terry Smith
Co-founder & Executive Director

- Co-founder of NTD in 1989 from a tyre retail store in Brisbane
- 40 years experience in tyre wholesale & retail.

Extensive Distribution Platform – Strong Foundations

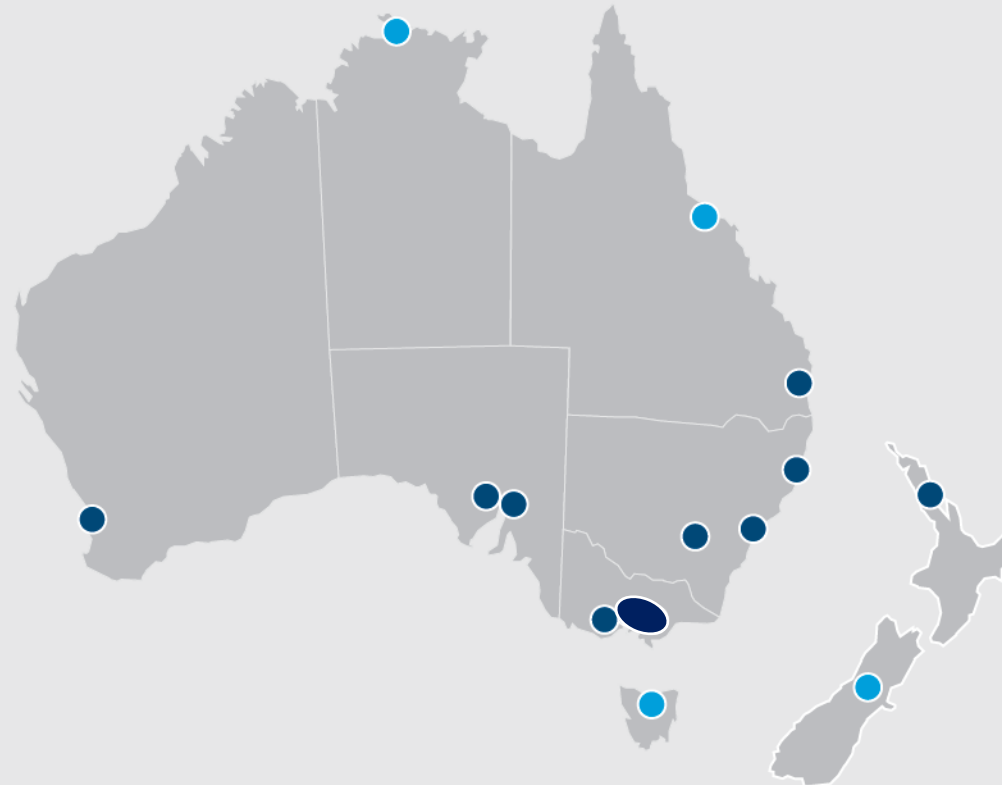


Sales & Distribution Centres

- NTAW Distribution Centers
- 3rd Party Warehouse



Durban, South African Economic Zone



- Senior Management team with over 200 years combined tyre and wheel industry experience
- Over 200 employees in 3 countries
- 10 Distribution Centres operated by NTD*
- 7 Warehouse operated by 3rd parties

* ETD and Dynamic warehouses in Melbourne merged in H1 FY20

A diversified tyre and wheel wholesaler



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STATEWIDE TYRES



New Zealand Australia South Africa

South Australia and WA (from Feb 2020)

Hottest and toughest
Australia, NZ and South Africa

Operating Entities & Locations



Key tyre and wheel brands