Financial Results

2020 Financial Year

25 August 2020

Important Information and Disclaimer

- This presentation may contain certain unaudited financial information in relation to National Tyre & Wheel Limited ("NTD" and the "Company"). As such, it has not been subject to an audit or an audit process or otherwise independently verified.
- This presentation may contain forward looking statements. Such statements are inherently subject to uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors which could cause actual values or results, performance or achievements to differ materially from anticipated results, implied values, performance or achievements expressed, projected or implied in the statements. The company gives no assurance that the anticipated results, performance or achievements expressed or implied in those forward-looking statements will be achieved.
- None of the company or any of its directors or any other party associated with the preparation of this presentation guarantee that any specific objective of the company will be achieved or that any particular performance of the company or of its shares will be achieved.
- The information in this presentation does not take into account the objectives, financial situation or particular needs of any person. Nothing contained in this presentation constitutes investment, legal, tax or other advice.

Results Highlights

*Reported EBITDA bridge to Operating EBITDA

$m	FY20	FY19
Reported EBITDA	12.2	12.8
Impact on Occupancy costs due to adopting AASB 16	(3.1)	
Impairment charges on intangible assets related to South African subsidiary	2.2	
Unrealised foreign exchange losses	0.5	(0.1)
Operating EBITDA	**11.8**	**12.7**

- Operating EBITDA* of $11.8m (ahead of June 2020 guidance).
- Pre COVID-19 pandemic volume down due to competitive pressure, sluggish demand for premium products and changing the product mix in South Africa. Post pandemic results strong, demonstrating industry and business resilience.
- Gross margin (%) lower than last year due to competitive pressure and product mix shifts to budget tyres.
- Balance Sheet remains strong – net cash: $13.6m at 30 June 2020.
- Post balance date purchase of Tyres4U will deliver significant diversity and scale, taking Group revenue to more than $450m. To help fund the purchase and further working capital investment in Tyres4U, there is no final dividend.

Financial Results

FY20 Operating EBITDA*: $11.8m compared to FY19: $12.7m.

* See page 3

FY20 NPATA: $5.7m compared to FY19 NPATA of $8.0m.

FY20 Revenue: $158.9m compared to FY19 of $168.4m.

FY20 gross margin: 26.0% compared to FY19 gross margin of 28.7%

30 June 2020 Net Assets: $68.8m; 30 June 2019: $70.6m**

** Net assets at 30 June 2019 has been adjusted to include all right-of-use assets and lease liabilities due to adoption of AASB 16.

Summary of Results

Statement of Profit or Loss $'000	FY20	FY19
Sales revenue	158,857	168,365
Cost of goods sold	(117,594)	(120,060)
Gross profit	**41,263**	**48,305**
Other income	1,144	113
Employee benefits	(17,106)	(18,081)
Marketing	(3,691)	(5,899)
Occupancy	(1,692)	(5,195)
Impairment	(2,210)	-
Other expenses	(5,524)	(6,419)
EBITDA	**12,184**	**12,824**
Depreciation & amortisation	(5,121)	(2,628)
Finance costs (net)	(828)	(544)
Net profit before tax	**6,235**	**9,652**
Income tax expense	(2,007)	(2,975)
Net profit after tax	**4,228**	**6,677**
Addback:		
Non-controlling interest loss/(gain)	323	(286)
Amortisation[1]	1,114	1,577
NPATA attributable to NTAW	**5,665**	**7,968**

[1] *Amortisation add-back is net of tax effect.*

Comments

- Gross profit margin of 26% decreased from prior year due to an inability to pass on certain price increases to customers and a change in product mix amplified by the customer spending habits during the pandemic.
- Other income includes $1.1m of pandemic related funds from the Australian and New Zealand governments used to avoid lay offs that would have otherwise occurred.
- Employee benefits and marketing expense were contained in response to trading activity and uncertainty during the pandemic.
- As a result of the adoption of AASB 16 *Leases*, there is a significant decrease to Occupancy costs and increase to Depreciation and Finance costs as actual lease payments are apportioned between these expense items. These movement do not off-set equally due to timing differences in lease payments and the depreciation and interest respectively charged on the right-of-use assets and lease liabilities.
- Intangible assets belonging to the Tyrelife Solutions ("TLS") business unit were fully impaired to the value of $2.2m. **FY20 net profit before tax and impairment is $8.4m**.
- The forecast income tax rate applicable to NTAW is approximately 32%, which is equivalent to the Australian corporate tax rate adjusted for permanent differences.
- NPATA attributable to NTAW shareholders excludes non-controlling interests (representing the residual 50% interest in TLS) and adjusted for amortisation.

Balance Sheet & Key Operating Metrics

Statement of Financial Position $'000	June-20	June-19
Current assets		
Cash and cash equivalents	25,859	19,554
Receivables	23,215	24,679
Inventory	41,487	48,563
Prepayments	1,580	1,280
	92,141	**94,076**
Non-current assets		
Property, plant and equipment	3,615	3,579
Right-of-use assets	11,800	-
Intangible assets	16,739	20,313
Deferred tax assets/(liabilities)	900	(152)
	33,054	**23,740**
Total assets	**125,195**	**117,816**
Current liabilities		
Payables	24,930	29,425
Borrowings	-	1,915
Lease liabilities	3,298	125
Provisions	3,652	3,192
Other financial liabilities/(assets)	943	(24)
Current tax liability/(asset)	902	(212)
	33,725	**34,421**
Non-current liabilities		
Borrowings	12,223	11,145
Lease liabilities	9,172	150
Provisions	1,230	1,357
	22,625	**12,652**
Total liabilities	**56,350**	**47,073**
Net assets	**68,845**	**70,743**

Comments

- The Group had cash of $25.9m at 30 June 2020, up from $19.6m at 30 June 2019.
- Net tangible assets[1] per ordinary share of 49.8 cents at 30 June 2020 comparable to 30 June 2019 at 49.0 cents.
- NTAW's working capital position at 30 June 2020 decreased $3.8m from June 2019 as a result of reduced inventory holdings (reduced purchasing in Q4 in light of the COVID-19 pandemic).

Net Cash at 30 June 2020 of $13.6m.

Key Operating Metrics	FY20	FY19
Gross profit margin	26.0%	28.7%
Operating costs as % of revenue	16.9%	21.1%
Reported EBITDA margin	7.7%	7.6%
Operating EBITDA[2] margin	7.4%	7.6%

1 Net tangible assets includes right-of-use assets and lease liabilities.

2 Reported EBITDA adjusted for impact of AASB 16 adoption and non-operational items (i.e. impairment charges and unrealised FX).

H1 FY20 Pre-Pandemic Strategy

- Product assortment changes including more near sourced passenger tyres and exclusive importation of the budget Blacklion range.
- Re-tooling Asian suppliers to produce 4WD products for Australia, NZ and South Africa. Negotiating for production of private label products.
- Structural and tactical changes to sales teams and processes, rolling out new customer care initiatives and consolidating management in fewer people.
- SUV tactics failed to generate target growth in Australia with marketing effort not enough to overcome the premium price disadvantage.
- New product releases and supplier price support grew volume and revenue from wheels and budget tyres.

H1 FY20 Pre-Pandemic Trading Highlights

- Volume growth in ETD New Zealand, Dynamic Wheels and Statewide Tyre Distribution offset by contraction in ETD Australia, TLS (South Africa) and, to a lesser extent, MPC.
- Some selling prices fell at ETD Australia and South Africa as competitor discounting continued. Together with declining volume, lower prices reduced revenue in these businesses.
- Gross margin % lower due to relatively high import prices for premium products and intense price competition limiting sell-out price increases in some businesses.
- Strong volume growth recorded in wheels (all geographies) and budget tyres (Australia and NZ).
- Sales growth (customer and consumer) from rolling out the new customer care centre in Australia.

H2 FY20 Post-Pandemic Strategy

- Purchase of Industrial Tyre Service in Western Australia and commencement of due diligence to acquire Tyres4U.
- Shipments of near sourced Cooper AT3 4WD tyres began to arrive, along with Cooper C5 car tyres.
- Statewide Tyre Distribution (East Coast) launched.
- Near source Asian factory for private label manufacture selected.
- Accelerated new wheel product activity – sizes and models.

H2 FY20 Post-Pandemic Trading Highlights

- Marketing expenses and product procurement curtailed in response to the pandemic. Overheads generally managed to reflect activity levels and government support.
- Volume and revenue growth in wheels and budget tyres in Australia and NZ recovered well in all categories after a lock down and South Africa suffers from an extended economic lock down.
- Gross margin % lower due to relatively high import prices and intense price competition constraining sell-out price rises in some businesses.
- Gross margin % trend continues with all markets operating unpredictably.
- Apart from significant volume and revenue declines in April in Australia and New Zealand, and prolonged lock downs in South Africa, the industry and group businesses prove to be resilient in response to the pandemic.

Post Closing Event – Acquisition of Tyres4U

Acquisition Highlights

- Price calibrated to approximately equal the book value of net working capital and fixed assets;
- Funded by cash, new bank debt and shares (representing about 10% of issued capital) issued to vendors;
- Retained existing management team and personnel; and
- Substantial business improvement opportunities with further synergies available to add value (e.g. over 20 redundancies occurred on completion).

As a result of the acquisition, the NTAW group becomes the largest independent tyre and wheel wholesaler in Australia and New Zealand.

The Group's businesses now supply tyres and wheels for all segments (except large mining equipment and bicycles). Segments include car, SUV, 4WD, light commercial, truck & bus, industrial, agricultural & off the road.

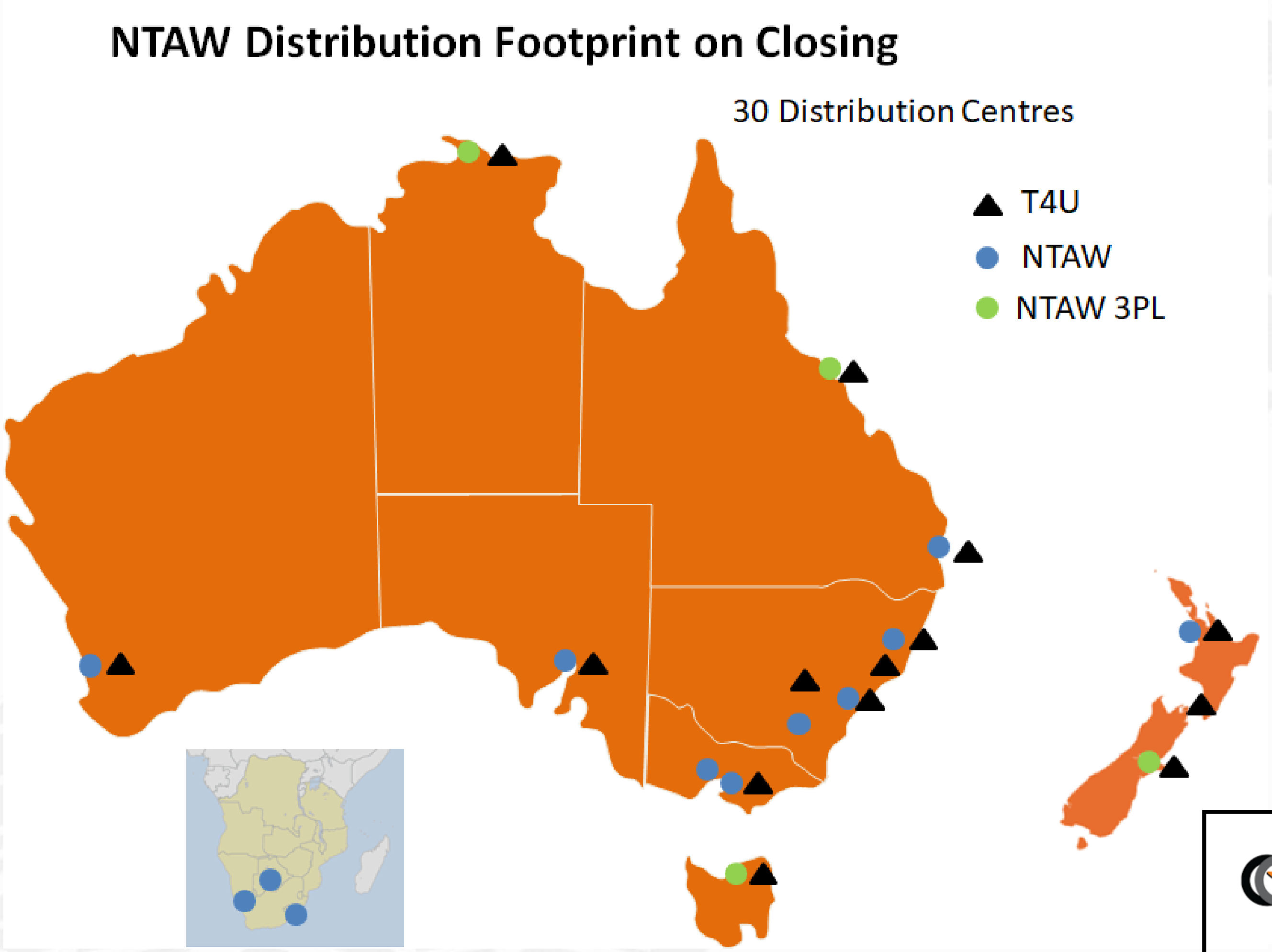
The Group's 4,000 plus customers cover almost the entire field of tyre re-sellers including tyre specialty stores, mechanic workshops, car dealers, online re-sellers, mobile tyre fitters and other retail outlets selling tyres.

The Group imports and sells over 35 different brands with no single supplier accounting for more than 10% of COGS.

The Group currently operates all business units, including Tyres4U in Australia and NZ, as separate and independent entities to recognise the different business models and cultures within those businesses.

Acquisition of Tyres4U – Corporate Structure

Acquisition of Tyres4U – Expanded Distribution Footprint



- Senior Management team with over 200 years combined tyre and wheel industry experience
- Over 600 employees in 3 countries
- 30 Distribution Centres operated by NTAW in 3 countries
- Over 4,000 retail customers - touching tyre and wheel consumers everywhere
- Over 2,400,000 tyres and wheels sold each year

Tyreright

National retail network – company owned, licensed & affiliated

Outlook – Operations

Macro indicators – GDP contraction, unemployment, consumer sentiment and health forecasts (infection rates etc.) are all negative. Trading restrictions imposed by governments subsist in some regions and are likely to come and go throughout FY21. While the Group has traded strongly during the pandemic, it is extremely difficult to predict the outlook for operations.

Some conditions are expected to be favourable – drought breaking rains in some regions will drive growth in agricultural tyres, truck movements and the resulting need for tyres will continue in lock downs, domestic travel replacing overseas travel and public transport will increase tyre wear and consumers have so far shown a propensity to accessorise their vehicles (e.g. new wheel sales).

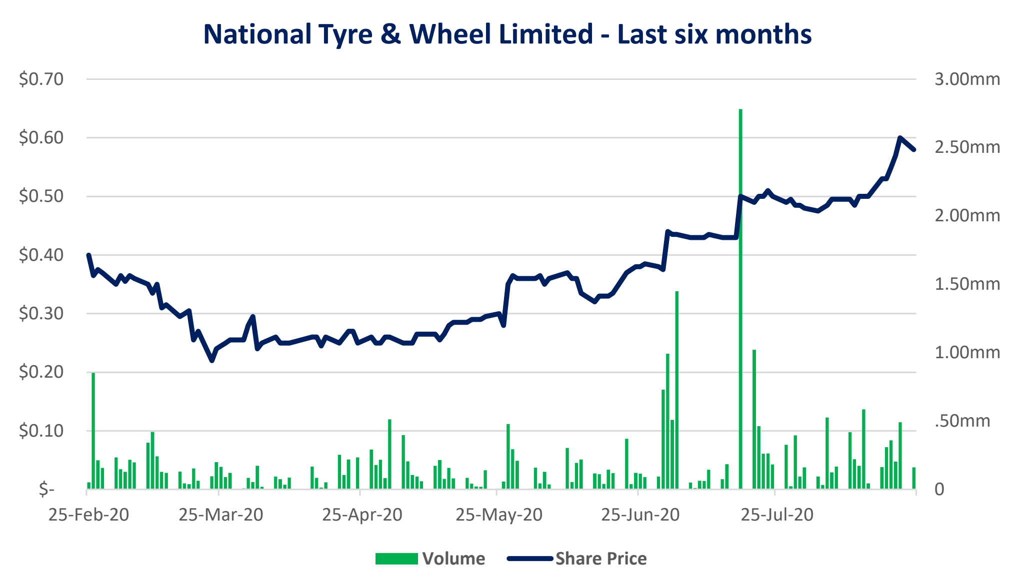
Benefits of near source manufacture of key products were barely visible in FY20 but will have an impact in FY21. The higher AUD to USD will assist GP or volume in H1 of FY21. The Statewide Tyre Distribution expansion to the Australian east coast only began in a meaningful way in July 2020. The Group will launch a private label 4WD tyre in FY21.

A strategic review of the Tyres4U business is presently underway to determine, amongst other things, the sustainability of profits made over recent months. The outlook for Tyres4U will become clearer in September when the review is completed.

All things considered, the Group expects FY21 trading conditions and outcomes to be like those experienced in FY20, with potential upside from strategic initiatives and the Tyres4U acquisition. The risks associated with the pandemic remain unknown.

Outlook – Shareholder value

National Tyre & Wheel Limited
ASX: NTD



The Tyres4U acquisition is expected to increase shareholder value over time. The transaction has been within the contemplation of the parties for many years and was one of the reasons for NTAW electing to become a publicly listed company.

The acquisition increases the diversity and scale of the Group. Diversification reduces risk and a broad product mix appeals to customers. Scale supports better service levels, more buying power and lower costs. It is likely that the transaction will also create revenue and cost synergies that will have a positive impact on earnings.

The timing of earnings benefits from the acquisition are difficult to predict due to the uncertainties associated with the pandemic and the fact that, while Tyres4U was profitable over recent months, it was not profitable for the full 2020 financial year.

Shares issued as part of the acquisition increased issued share capital to 114,207,216 shares. The expected impact on earnings per share of the acquisition will be determined after a strategic review of the Tyres4U business is completed in September.

Strong trading during the pandemic and the Tyres4U acquisition have coincided with an increase in the share price of NTAW over the past two months.

Basic EPS adjusted for non-operational items* equates to 6.73c; compared to 6.12c in FY19.

** Non-operational items include impairment charges and unrealised FX.*

National Tyre & Wheel

Exclusive Tyre Distributors
Building Leading Brands

DYNAMIC Wheel Co.
Hottest and toughest

TYRELIFE SOLUTIONS

www.magsandtyres.com
MPC MAGS AND TYRES
CARAVANS • TRAILERS • CHASSIS

STATEWIDE TYRES

Appendix

National Tyre & Wheel

- Specialised brand building business focussed on tyre and wheel importing & distribution
- Leading position in 4WD, SUV tyres, steel wheels & OEM wheels and tyres to caravan manufacturers, with the post balance date acquisition of Tyres4U giving the Group a leading position in Truck & Bus, Agricultural & Off the Road and Industrial segments.
- Strong history of earnings and dividends
- Track record of organic growth and successful M&A – shared customers, suppliers and operating systems
- Future growth to be driven by organic strategies, acquisitions and geographic expansion
- Established distribution footprint in Australia, New Zealand and South Africa
- Low customer concentration. Exclusive, long standing supplier relationships
- Experienced Board and management team

Experienced Management Team & Board

Peter Ludemann
Chief Executive Officer and Managing Director

- CEO since 2013 with stewardship of NTAW expansion into new products and markets, culminating in the 2017 IPO.
- M&A background, successful integration of acquisitions

Murray Boyte
Chairman

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

Jason Lamb
Chief Financial Officer and Company Secretary

- CFO for 12 years
- Integral part of NTD senior management

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.

A diversified brand building business

After the Tyres 4U acquisition

Business Units

Exclusive Brands