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ASX Announcement

23 December 2022

Trading Update for the half-year ended 31 December 2022

National Tyre and Wheel Limited (ASX: NTD) (“NTD”) provides the following trading update and earnings guidance in relation to the half-year ended 31 December 2022 (“1H23”).

NTD expects 1H23 revenue will be between \$290m and \$300 (\$251m in 1H22) at an estimated gross margin of 26.5% (29.0% in 1H22), delivering Operating EBITDA between \$13m to \$14m (\$20m in 1H22) and Operating NPATA between \$1m to \$2m (\$8m in 1H22). Operating EBITDA will exclude non-recurring and abnormal expenditure of approximately \$0.7m.

It is pleasing that sales volumes will likely meet previous expectations. However, gross margins have not been maintained in some business units following substantial increases in cost of goods over the past 12 months. In response, NTD continues to negotiate lower prices from suppliers and raise selling prices to restore gross margins. The recent significant reduction in inbound freight costs and a continuing and sustained improvement in the AUD:USD exchange rate will assist that effort.

NTD is actively managing all discretionary expenditure and reviewing business structures and operating methods to reduce costs. The investment in NTD’s ERP project has been significantly scaled back since the beginning of 2Q23 and this project is expected to proceed at a reduced cost as gross margins recover.

NTD is targeting gross margin improvements and cost reductions to deliver a 2H23 result close to the 2H22 Operating NPATA (\$7.6m), with the full year impact of these measures returning net profit margins to FY22 levels in FY24.

It is apparent that inventories have increased substantially throughout the industry since July 2022 due to surplus manufacturing capacity as well as increased container and shipping availability. NTD’s inventory on 30 November 2022 was \$141m (\$127m at 30 June 2022) as supply lead times reduced significantly. While this surplus is reducing, net working capital will likely remain higher than normal into 3Q23.

NTD’s senior lender (Commonwealth Bank of Australia) has suspended 2Q23 debt covenants to reflect the reduction in NTD’s trailing earnings.

In addition to focussing on gross margin improvement and cost reductions, NTD continues to execute other projects that are expected to improve profitability over time. These include cross selling initiatives between business units, ongoing rationalisation of the Tyres4U and Tyreright operations and warehouse consolidations in Perth and Brisbane (with Sydney and Melbourne consolidations completed in FY22).

This announcement was approved, and authorised for release, by NTD’s Board of Directors.

ENDS

For further information, please contact:

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Important Information and Disclaimer

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