National Tyre & Wheel

Driving the Future

Financial Results

Half-year ended 31 December 2022

28 February 2023

Agenda

National Tyre & Wheel
Driving the Future

1H23 Highlights

Executive Summary

Maintaining a diversified, scalable growth platform in a challenging environment

Platform for Growth	• National Tyre & Wheel Limited ("NTAW") is the largest independent tyre and wheel importer and wholesale distributor in Australia and New Zealand. • 1H23 revenue was $295.9 million (1H22: $251.5 million), including new revenue from FY22 acquisitions (full 6 months of Carter's & an additional 4 months for Black Rubber). Other Group revenue was stable apart from lower sales of USA sourced product and after allowing for the disposal of Tyreright stores. • NTAW imports approximately 2.7 million tyres and wheels per annum for almost all vehicle types for distribution to more than 3,000 wholesale customers, as well as retail businesses in Australia and New Zealand. • Various longer term projects relevant to growth strategies, including digital transformation activities, were delayed in 1H23 as NTAW focussed on dealing with COGS pressures, labour shortages and an unpredictable supply chain.
Financial Performance	• NTAW reported 1H23 Operating EBITDA (see page 5) of $15.7 million ($20.4 million in 1H22). • 1H23 results were adversely affected by extraordinary supplier price rises, higher freight costs and unfavourable currency exchange, despite NTAW's implementation of numerous sell out price rises. • NTAW's balance sheet at 31 December 2022 reflected lower than normal cash balances of $19.3 million as well as increased inventory levels due to unpredictable supplier lead times. Net debt was $74.5 million with net assets of $111.9 million.
Strategy Execution	• Warehouse consolidations are approaching completion (Brisbane in April 2023, Perth in September 2023). • Re-organisation of the truck and bus fleet business is scheduled to be completed in 3Q23. NTAW is continuing to rationalise its Tyreright retail business in Australia to drive growth in commercial tyre sales.
Outlook	• Supplier price inflation, high freight costs and adverse supply chain impacts are reversing, with gross margins expected to improve in 4Q23 despite a subdued outlook for consumer demand.

Financial Highlights

Temporarily higher COGS, lower short term gross margins

- 1H23 Operating EBITDA (refer below) of $15.7 million (1H22: $20.4 million).
- Higher USD supplier prices and freight costs, compounded by a low AUD/USD FX rate in October/November 2022 increased the cost of goods sold ("COGS") and reduced gross margins despite higher selling prices.
- Higher financing costs on larger debt with higher interest rates. No interim dividend declared in 1H23.

Reconciliation of Reported NPAT to Operating EBITDA		
$'000	**1H23**	**1H22**
Net profit after tax	(1,772)	5,565
Depreciation and amortisation	12,045	7,968
Finance costs (net)	3,698	1,820
Income tax expense	(251)	2,095
Reported EBITDA	**13,720**	**17,448**
IT project implementation costs	762	1,218
Warehouse consolidation costs	-	857
Store closure and redundancy costs	368	-
Acquisition costs	-	674
Unrealised FX loss/(gain)	825	244
Operating EBITDA	**15,675**	**20,441**

Financial Highlights	1H23	1H22
Gross profit margin	27.1%	28.6%
Operating costs as a % of revenue	22.4%	22.1%
Reported EBITDA ($ million)	13.7	17.4
Reported EBITDA margin	4.6%	6.9%
Operating NPATA* ($ million)	1.4	8.9
Basic EPS (cents)	(1.2)	4.7
Dividend per share (cents)	-	3.0
Net debt ($ million)	74.5	45.3
Net debt:debt+equity	36.2%	23.4%
NTA per share (cents)	47.4	55.3
Operating cash flow ($ million)	(1.4)	(4.3)
Interest cover (times)	3.7x	9.6x

*Operating NPATA is based on NPATA attributable to NTAW shareholders, adjusted for non-recurring and abnormal items, as per reconciliation above-left.

Performance & Strategy

Committing to Business Units Focussed on Winnable Segments

Scale and diversification across channels, customers and products

B2B - End User

INTEGRATED OE TYRE & WHEEL SOLUTIONS · SOLID PLUS · Tyres4U · STATEWIDE TYRES · CARTER'S tyre service · Black Rubber

Customer Mix

- Caravan, truck trailer and farm equipment manufacturers
- Commercial truck and bus fleet operators
- Hire car fleet operators
- Forklift and industrial equipment operators
- Large scale farmers

B2B - Reseller

Tyres4U · Exclusive Tyre Distributors · DYNAMIC Wheel Co. · STATEWIDE TYRES · Black Rubber · TYRELIFE SOLUTIONS

Customer Mix

- Tyre specialty retail stores (chains and independents)
- Mechanical service businesses
- Car dealers
- Online re-sellers

B2C - Retail

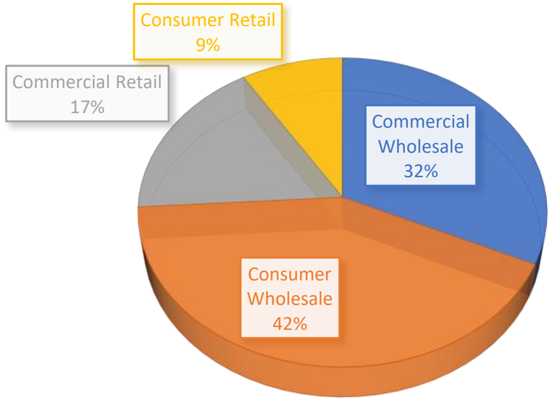
Tyreright · CARTER'S tyre service

Customer Mix

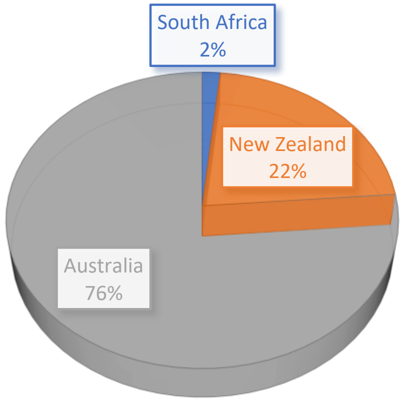
- Consumers
- Commercial customers

Note – some business units operate in more than one distribution channel

COMMERCIAL / CONSUMER REVENUE SEGMENTATION



COUNTRY REVENUE SEGMENTATION

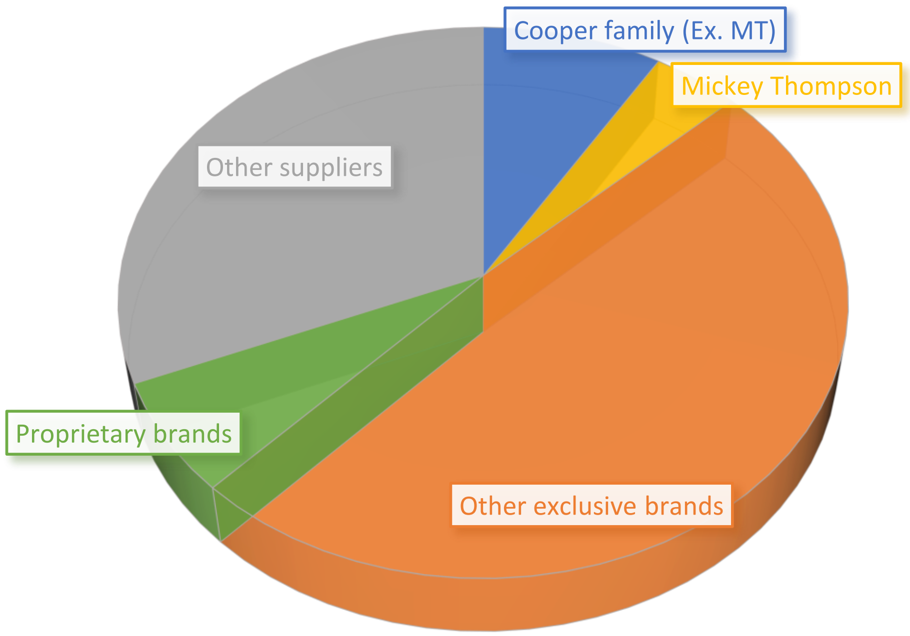


NTAW – Part of a Global Supply Chain

Diversification helps mitigate supply side risks

- Global tyre manufacturers produce 2.2bn tyres annually. The Australian tyre after-market is estimated to be 22m tyres per annum.
- There is no local manufacture of new tyres in Australia or New Zealand.
- NTAW sources products from over 70 suppliers, shipping from more than 15 countries.
- NTAW's long term exclusive relationships with many tyre manufacturers mitigates the risk of dependency on any particular supplier.
- Over the past 6 months, NTAW has centralised its freight management arrangements and achieved substantial savings to accrue in 2H23.

1H23 SUPPLIER MIX BY REVENUE



NTAW has encountered low fill rates from USA suppliers – products sourced from USA account for approximately 8% of NTAW revenue.

Global Trading Conditions in 1H23

Temporary supply side inflation & disorderly supply chain environment

- Overall demand and volumes were stable in both consumer and commercial segments despite interest rate increases and rising prices. Revenue from USA sourced products declined due to poor fill rates from suppliers.
- NTAW encountered an array of adverse trading conditions that had a substantial impact on gross margins in 1H23. These conditions included:
    - Substantial increases in oil prices, a key raw material in tyre manufacture, resulting in an industry inflation rate in calendar year 2022 of more than 20%, well above the general rate of inflation;
    - Higher fuel prices also resulted in higher outbound freight costs with international shipping cost increases of up to 500% at various times between 2020 and late 2022;
    - The decline in the AUD/USD FX rate in 1H23 compounded COGS pressure and margin compression;
    - Unusually high staff turnover, especially amongst trade and logistics personnel despite tight labour markets; and
    - A disorderly supply chain, particularly in 1H23, as strong demand and production backlogs resulting from the pandemic saw manufacturers unable to fulfil orders. Months of low fill rates were followed by “all at once” deliveries of back orders.
- **This combination of supply side inflation and a disorderly supply chain was sudden and extraordinary. A positive reversal is already underway and suppliers are now reducing prices coinciding with a substantial reduction in freight costs.**

NTAW Responses to Trading Conditions

Focussing on customer service, reducing costs, maintaining readiness to execute growth strategies

Initiative	Details	Expected outcome
Freight management tender	Completed in 1H23	Substantial freight cost savings
Warehouse consolidation	Brisbane scheduled to be completed in April 2023 and Perth in September 2023	Service level improvement and lower rent (after one-off relocation costs)
Overhead rationalisation	Ongoing review of operations	Further savings expected in 2H23
Discussions with suppliers	Proactive negotiations ongoing	Cost reductions to improve margins
Reorganisation of commercial truck and bus fleet activities	Scheduled to be completed in 2H23	Improved efficiency by leveraging off expertise and distribution platforms of Tyres4U, Tyreright and Black Rubber in Australia
Continuation of distribution of Cooper branded products	Achievement of calendar year 2022 agreement hurdles	Increased support from and collaboration with Cooper Tires in 2H23
Procurement initiatives centred on new sales and operations planning processes	Ongoing in 2H23	Improved inventory management and working capital
Digital transformation	All business units except Tyres4U (Australia and NZ) and some Tyreright stores scheduled to be on the same finance and administration platform in 2H23 Five new websites launched and another three scheduled to go live in 2H23 Other digital transformation projects on hold	Improved reporting and business efficiencies, laying a platform for an enhanced customer experience

Operational Growth and Synergy Initiatives

Future benefits from scale and diversity

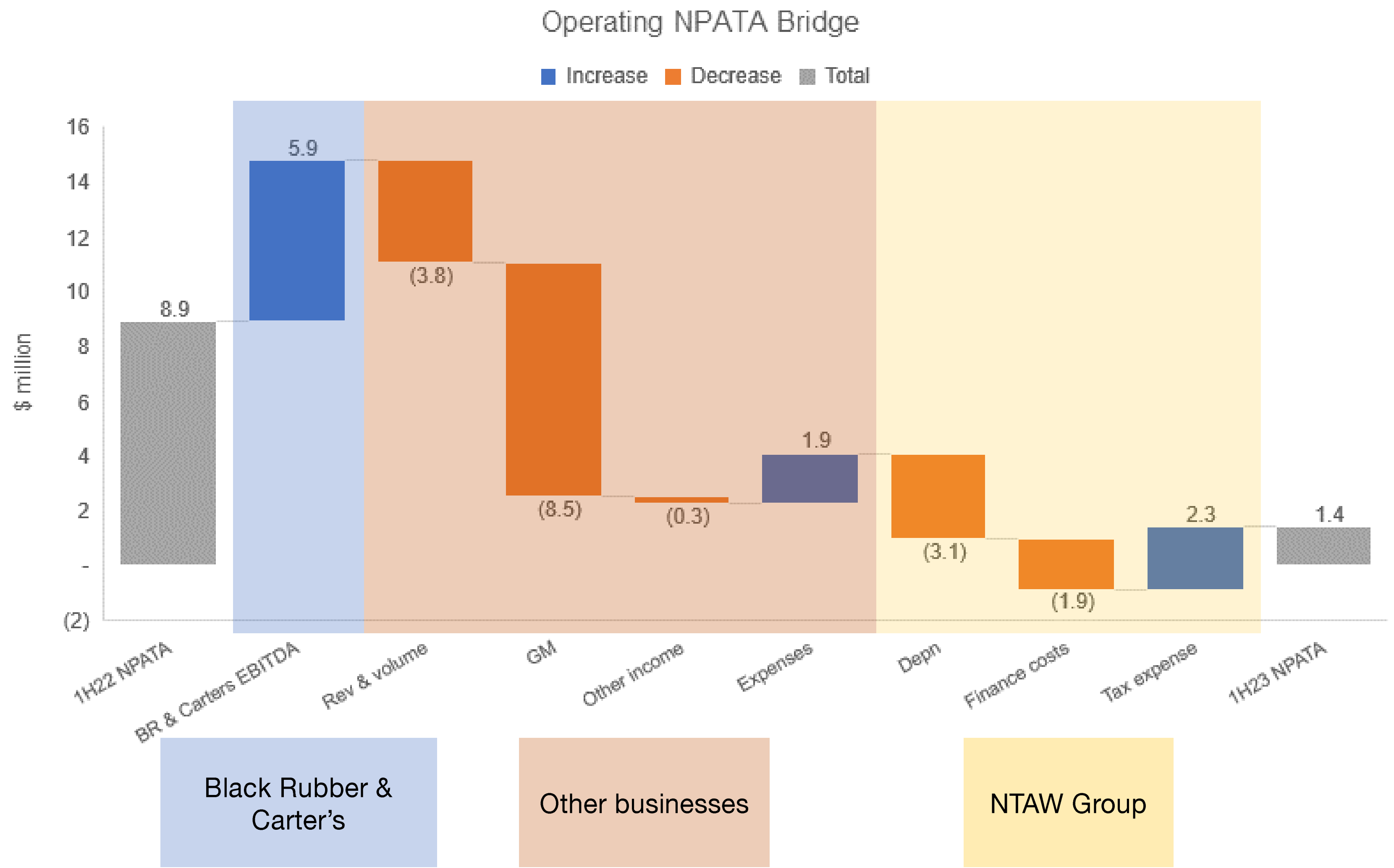
After meeting the challenges of the temporary and adverse 1H23 trading conditions, NTAW will refocus on executing the following initiatives to drive earnings growth:

- cross selling between business units;
- selling value-adding services supplied by Carter's and Black Rubber to other NTAW commercial customers;
- removing duplication of activity and unnecessary costs, with increased integration based on commercial/consumer and wholesale/retail functions;
- additional support from Cooper Tires to improve market share following constrained promotional activity and supply chains in prior years;
- improved service levels and cost savings flowing from warehouse consolidations and a separate logistics business unit;
- capturing other synergies from the Tyres4U, Black Rubber and Carter's acquisitions;
- sales growth and lower costs from the digital transformation project;
- new products – NTAW launched a new range of off-the-road tyres for forestry vehicles as part of a new exclusive distribution arrangement with Nokian, a Finnish tyre manufacturer, and the range of the Cooper Rugged Trek 4WD tyre will be expanded in March 2023; and
- deeper relationships with exclusive suppliers.

Financial Results

Bridge from 1H22 to 1H23

FY22 acquisitions perform in accordance with investment case, but gross profit impacts on other businesses



Black Rubber & Carter's

- FY22 acquired companies contributed $5.9m EBITDA in 1H23.

Other businesses

- Declining revenue mostly attributable to poor fill rates of USA sourced products and the disposal of Tyreright stores.
- Reduction in gross margins due to adverse trading conditions (refer to page 9).
- Expenses also down due to Tyreright store disposals.

NTAW Group

- Depreciation is up due to new leases (including the Carter's locations) treated as right of use assets under AASB16 *Leases.*
- Increased financing costs on larger debt and higher interest rates.

NTAW Results Summary

NTAW reported revenue of $295.9 million and Operating EBITDA of $15.7 million

Statement of Profit or Loss		
$'000	**1H23**	**1H22**
Sales revenue	295,931	251,488
Cost of goods sold	(215,861)	(178,646)
Gross profit	**80,070**	**72,842**
	27.1%	*29.0%*
Other income	140	375
Employee benefits	(44,163)	(35,139)
Occupancy	(3,695)	(4,824)
Professional fees	(3,039)	(3,347)
Marketing	(2,682)	(2,457)
Other expenses	(12,911)	(10,002)
EBITDA	**13,720**	**17,448**
Depreciation & amortisation	(12,045)	(7,968)
EBIT	**1,675**	**9,480**
Finance costs (net)	(3,698)	(1,820)
Net profit before tax	**(2,023)**	**7,660**
Income tax expense	251	(2,095)
Net profit after tax	**(1,772)**	**5,565**
Addback:		
Non-controlling interest loss / (gain)	160	(104)
Amortisation[1]	1,101	446
NPATA attributable to NTAW	**(511)**	**5,907**

1 Amortisation add-back is net of tax effect.

Key Operating Metrics	1H23	1H22
Gross profit margin	27.1%	28.6%
Operating costs as a % of revenue	22.4%	22.1%
EBITDA margin	4.6%	6.9%
Operating NPATA ($ million)	1.4	8.9
Basic EPS (cents)	(1.2)	4.7
Dividend per share (cents)	-	3.0
Operating cash flow ($ million)	(1.4)	(4.3)
Interest cover (times)	3.7x	9.6x

*NPAT includes non-recurring and abnormal expenses of $2.0 million, as summarised on page 5. After adjusting for these expenses, Operating EBITDA in 1H23 was $15.7 million, Operating NPATA was $1.4 million and Operating NPAT was $0.3 million.

Comments

- 1H23 result includes 6 months of Carter's and Black Rubber (1H22 did not include Carter's and only included 2 months of Black Rubber).
- Expenses (including abnormal and non-recurring items) well contained but increased due to the inclusion of Carter's and Black Rubber ownership.

Balance Sheet

Solid balance sheet supporting working capital needs and future growth

Statement of Financial Position		
$'000	**Dec-22**	**June-22**
Current assets		
Cash and cash equivalents	19,289	35,826
Receivables	84,406	98,425
Inventory	134,756	127,133
Other current assets	5,896	6,609
Current tax asset	1,087	1,216
	245,434	**269,209**
Non-current assets		
Property, plant and equipment	16,271	16,817
Right-of-use assets	57,973	65,081
Intangible assets	52,975	53,764
Other non-current assets	493	623
	127,712	**136,285**
Total assets	**373,146**	**405,494**
Current liabilities		
Payables	86,264	106,066
Borrowings	5,516	7,550
Lease liabilities	16,928	16,016
Provisions	12,382	13,238
Other current liabilities	1,261	-
	122,351	**142,870**
Non-current liabilities		
Borrowings	88,285	88,244
Lease liabilities	44,380	51,581
Provisions	1,994	2,047
Payables	-	2,600
Deferred tax liabilities	4,277	5,686
	138,936	**150,158**
Total liabilities	**261,287**	**293,028**
Net assets	**111,859**	**112,466**

Net Debt at 31 December 2022 of $74.5 million.
Net Debt to LTM Operating EBITDA of 1.86 times.
Net Debt to Equity + Debt ratio of 36.2%.

Comments

- On 31 December 2022, NTAW reported total assets of $373.1 million and net assets of $111.9 million, being $0.84 per share.
- NTAW's gross debt position was $93.8 million and it held cash of $19.3 million at 31 December 2022.
- Net tangible assets per ordinary share of $0.47 at 31 December 2022.
- Banking covenants with CBA, NTAW's senior lender, have been renegotiated to reflect 1H23 financial results and expectations for the remainder of calendar year 2023.
- Inventory balances at 31 January 2023 have reduced $3 million from 31 December 2022.

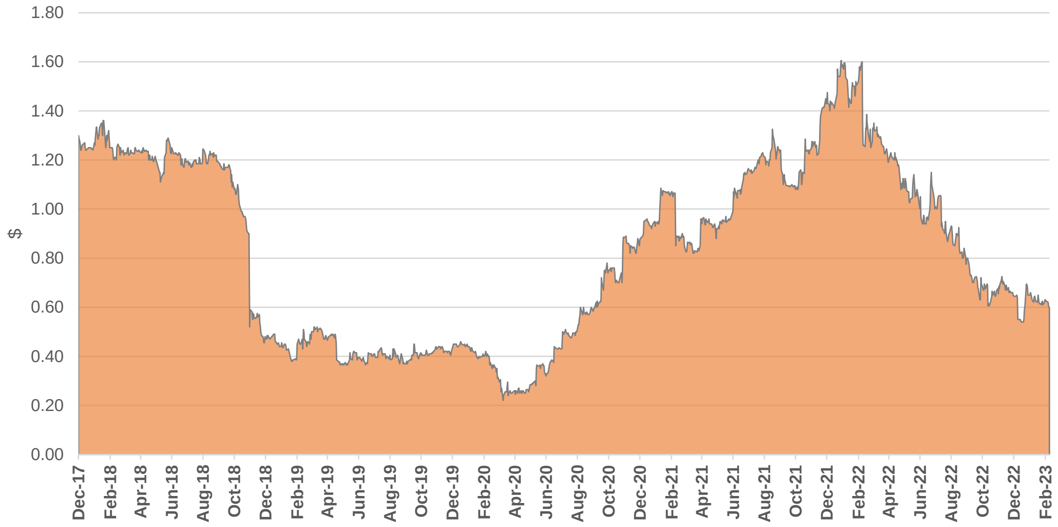
Net Working Capital & Cash			
$'000	**Dec-22**	**Jun-22**	**Mvmnt**
Cash and cash equivalents	19,289	35,826	(16,537)
Receivables	84,406	98,425	(14,019)
Payables	(86,264)	(106,066)	19,802
Sub-total	**17,431**	**28,185**	**(10,754)**
Inventory	134,756	127,133	7,623
Net Working Capital	**152,187**	**155,318**	**(3,131)**

Reduction in cash, receivables & payables largely off-set by increased inventory holdings.

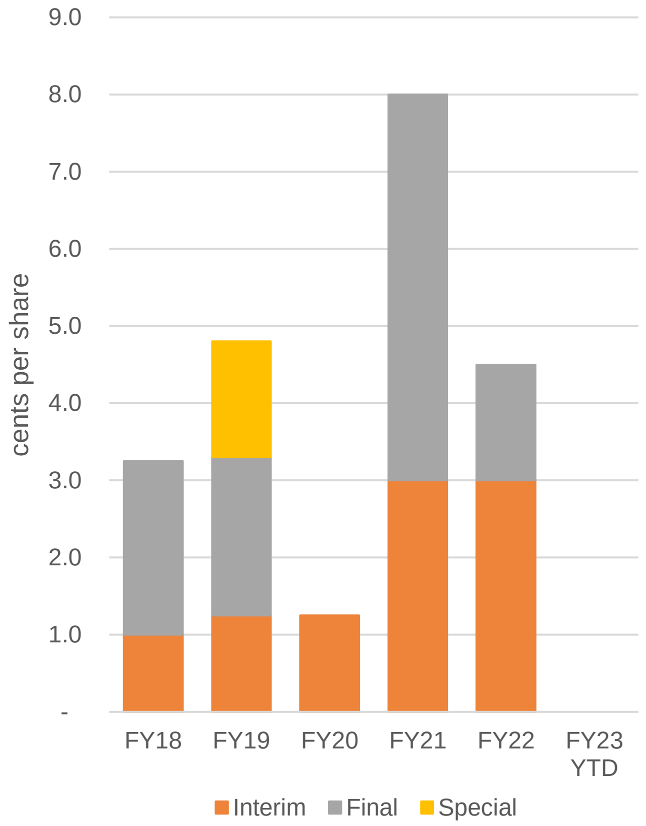
Capital Structure

- There are 133,252,066 shares on issue at 31 December 2022.
- No interim dividend will be declared based on the 1H23 financial result.
- NTAW currently has $19.0 million franking credits available.
- The NTAW Board is aware of the importance of the Company's dividends to shareholders and will remain focussed on improving profitability to enable recommencement of dividends at the earliest opportunity.

Share Price since IPO (Dec-17)



Dividend History



Outlook

Outlook

Gross margins expected to improve in 4Q23

- NTAW expects consumer demand to be lower than recent years in response to higher interest rates and prices.

- Commercial demand is expected to remain strong based on continuing goods movements, mining activity and a strong agricultural economy. Commercial sales are expected to increase due to the combined and collaborative sales efforts of Tyres4U, Tyreright and Black Rubber.

- NTAW gross margins are improving due to substantially lower freight costs, lower supplier prices, an ongoing program of realigning prices and, recently, a more favourable rate of exchange between the AUD and USD.

- NTAW is actively managing all discretionary expenditure and reviewing business structures and operating methods to reduce costs. Warehouse consolidations are expected to save costs and realise synergies.

- The investment in NTAW'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.

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

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