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ASX Announcement

17 July 2020

NATIONAL TYRE & WHEEL LIMITED (“NTD”) MAKES TRANSFORMATIVE ACQUISITION OF TYRES 4U (“T4U”) IN AUSTRALIA AND NEW ZEALAND

- **NTD enters a conditional Agreement to acquire T4U’s importing, wholesale and retailing business assets in Australia and New Zealand**
- **Strong strategic fit providing exposure to the truck & bus, industrial and agricultural tyre segments where NTD currently has little or no presence**
- **The acquisition will make NTD one of the largest tyre wholesalers in Australia and New Zealand with FY20 tyre volume of more than 2.5m units and combined NTD/T4U FY20 revenue of \$450 million**
- **Opportunities for cross selling and expansion along with operating and revenue synergies yet to be quantified**
- **Acquisition consideration to be funded by a combination of NTD’s cash reserves, a new debt facility and a placement of NTD shares to the vendors of T4U. The value of consideration and transaction costs is expected to be equivalent to the net assets being acquired.**

National Tyre & Wheel Limited (ASX Code: NTD) has entered into a conditional agreement to acquire the business assets of T4U in Australia and New Zealand. The acquisition is expected to be completed on or about 31 July 2020.

Strategic Rationale

NTD imports and wholesales tyres and wheels in Australia, New Zealand and South Africa. Historically, NTD has mostly focussed on 4WD tyres and wheels. More recently it has expanded its product mix to include car and SUV tyres.

Tyres4U Pty Ltd and Tyres4U (NZ) Limited (together called **T4U**) carry on the business of importing and wholesaling tyres and wheels in Australia and New Zealand. T4U also carries on a retail business in Australia, comprising 32 company owned and 34 licensed Tyreright stores. T4U’s wholesaling business is carried on from 12 locations throughout Australia and 3 locations in New Zealand. T4U has been operating since 1990 and employs more than 450 people.

NTD has a well-documented strategic objective to diversify and seek scale through acquisitions. Diversification reduces risk and a broad product mix appeals to customers. Scale supports better service levels, more buying power and lower costs.

Acquiring the T4U business is a logical extension of this strategy – it operates in key industry segments in which NTD has little or no presence: truck & bus tyres; industrial tyres (e.g. fork trucks); and agricultural/off the road tyres. Similarly, T4U is not as strong in the 4WD segment, where NTD is strongest. While both businesses focus on tyre specialty retail customers, there are opportunities to cross sell and expand into other channels. T4U and NTD have no common suppliers.

In addition to this diversification, T4U brings significant scale – with combined FY20 volume of more than 2.5m units and combined FY20 revenue of \$450m. The transaction will make the merged NTD/T4U one of the largest tyre wholesalers in Australia and NZ and the largest independent multi branded wholesaler in both countries.

Integration of the businesses is relatively seamless – there are nuanced differences between product types and distribution strategies but, fundamentally, operations, customers and types of suppliers are the same. Synergies are expected with little product overlap and each business presently operating separate distribution centres in major capital cities and some regional centres.

After completion NTD will operate 30 distribution centres in Australia, New Zealand and South Africa. The business will serve more than 4,000 retailer customers with only two of those representing more than 2% of revenue and none accounting for more than 3% of revenue. None of more than 30 suppliers will represent more than 17% of COGS and only one is more than 8%. After acquisition, NTD will employ more than 500 people in Australia, New Zealand and South Africa.

Agreement

Under a Business Sale Agreement dated 17 July 2020 (the Agreement), NTD (via wholly owned subsidiaries) has agreed to purchase all the business assets and assume all the business liabilities of T4U in Australia and New Zealand.

Assets include cash, debtors, inventory, prepayments, fixed assets, intellectual property and the benefit of all business contracts. Liabilities include all amounts due to suppliers, other trade creditors, the burden of business contracts, employee entitlements and other provisions. Assets that are subject to asset finance agreements and the attached liabilities are also being acquired.

The combined assets and liabilities represent the net working capital and fixed assets of T4U.

Completion of the Agreement is subject to certain conditions precedent including certain key landlord consents, finalisation of funding commitments for NTD, notification to, and approval from, the NZ Overseas Investment Office and other usual closing conditions, with completion expected to occur on or about 31 July 2020.

ASX has confirmed that shareholder approval of the acquisition under ASX Listing Rule 11.1 is not required.

Consideration

The tangible net working capital assets, cash on hand and fixed assets being acquired by NTD are estimated to have a book value of approximately \$52m if completion occurs on or about 31 July 2020.

The consideration payable for these assets is estimated to be \$48.8m, consisting of cash consideration of \$43.6m and the issue of:

- 11,432,368 fully paid shares in the issued capital of NTD to Tyres4U Pty Ltd (representing 10% of the undiluted expanded issued capital of NTD (excluding the additional shares described below) to be issued at an issue price of \$0.43, being the VWAP of NTD shares over 5 business

days prior to the date of the Agreement. The shares will be subject to voluntary escrow until 18 months after the date of issue and subject to forfeiture against claims made under the Agreement. At a share price of \$0.43, the value of these shares is \$4,908,030; and

- 698,796 fully paid shares in the issued capital of NTD valued at \$300,000 to Tyre & Tube Australia (Services) Pty Limited (**TTA**), the vendor of the TTA business that was acquired by T4U in October 2019. These shares are being issued in partial satisfaction of deferred consideration and earn out payments due by T4U to TTA. These shares will be issued at the same issue price of \$0.43 per share. The shares will be subject to voluntary escrow until 18 months after the date of issue. The escrow period will be shorter if the employment of Mr Andrew Bloxham (the founder of TTA) is terminated sooner without cause. The shares are also subject to forfeiture if Mr Bloxham resigns or is terminated for cause during the 18 month period.

The NTD shares will be issued using NTD's available capacity under ASX Listing Rule 7.1. The effect on the total issued capital of NTD will be to increase the shares on issue from 102,891,313 to 115,022,477 shares.

In addition, NTD will incur transaction costs (including stamp duty) of approximately \$1.9m. NTD assumes responsibility for investments in working capital and capital expenditure after completion.

Funding

The consideration will be funded from NTD's cash reserves, NTD shares and debt. Funding arrangements have not been finalised and the Agreement is subject to and conditional upon NTD having received written commitments under its debt facilities that are unconditionally available to fund its obligations under the Agreement. NTD has 14 days within which to satisfy this condition precedent and will release further information about the sources and uses of funds for the purchase when that information is known. If the condition is not satisfied, either party may terminate the Agreement.

Financial Position

The expected impact of the transaction on the financial position of NTD will be provided once the Agreement becomes unconditional and details of the new debt facility are known.

In October 2019, T4U acquired the assets of TTA, closed TTA distribution centres and reduced overheads in other ways, including lower employee costs following redundancies. The benefit of these synergies accrued progressively through FY20.

T4U performance was adversely affected in FY20 by sluggish consumer demand, drought in many key regional markets, integrating TTA, bushfires and then the Covid-19 pandemic. While T4U is expecting to make a loss in FY20, the run rate evident in May and June points to a better result in FY21.

NTD had a similar experience with trading up until May 2020 suffering from various adverse conditions followed by a strong finish to the year and revised guidance to a FY20 Operating EBITDA¹ of \$10.5-\$11m issued on 30 June 2020.

Given that NTD is acquiring net assets at or about their book value and prevailing economic uncertainty, NTD does not propose to provide earnings guidance for FY21 until:

- the momentum evident from T4U's profitable trading in May and June has been sustained;
- various strategic initiatives and integration decisions have been acted upon in the first few months after completion; and
- further work has been performed to estimate the value and timing of synergies that may be available.

Management & Board

T4U senior executives have accepted offers of employment from NTD. Peter Ludemann (NTD CEO) and Les DeCelis (CEO of T4U) will, together with Mr Bill Cook and Mr Robert Kent (both NTD Directors), form the Board of directors of the NTD subsidiaries formed to acquire T4U. There will be no changes to NTD management or the NTD Board.

Mr Les de Celis, T4U CEO said: "Some years ago, I met with Peter Ludemann and others from NTD to discuss the prospects of a merged T4U and NTD business. We were very enthusiastic back then about the benefits we could deliver to suppliers and customers with an abundance of complementary skills in our teams and no significant overlap of products or suppliers. Changes in the industry since then have only made the case for getting together more compelling and we are extremely excited to join forces with NTD".

Peter Ludemann, NTD CEO, said: "The purchase of T4U is testament to the power of belief and persistence. When we first met, we were struck by the fact that, despite each being tyre wholesalers for more than 25 years, we did not bump into each other in the marketplace. Different business models, different products and different routes to market made it immediately obvious that everyone could benefit from getting together, without disturbing our core businesses or values. I'm really pleased to have found a way to do that – even though the tyre industry has proved to be resilient over the past few months, there can hardly be a better time to turn diversity and scale into a better outcome for our suppliers, customers, people and shareholders".

NTD is being advised by Dentons and Pitcher Partners. T4U is being advised by Miles Advisory Partners and Hamilton Locke.

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

ENDS

¹ "Operating EBITDA" excludes any allowance for possible impairment charge and any adjustments related to AASB16 Leases adoption of which will increase reported EBITDA.

For further information, please contact:

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Important Information and Disclaimer

This announcement may contain forward-looking statements, which include all matters that are not historical facts. Without limitation, indications of, and guidance on, future earnings and financial position and performance are examples of forward-looking statements.

Forward-looking statements, including projections or guidance on future earnings and estimates, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. No representation, warranty or assurance (express or implied) is given or made in relation to any forward-looking statement by any person (including NTD). In particular, no representation, warranty or assurance (express or implied) is given that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur. Actual results, performance or achievement may vary materially from any projections and forward looking statements and the assumptions on which those statements are based.