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ASX Announcement

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

National Tyre & Wheel Limited (ASX Code: NTD) completed the acquisition of the business assets of T4U in Australia and New Zealand after close of business on 4 August 2020 (“completion date”) pursuant to an Acquisition Agreement entered into on 17 July 2020. Details of the acquisition were disclosed in NTD’s announcement to ASX made on 17 July 2020.

Assets Being Acquired

NTD has acquired the business assets and assumed the business liabilities of T4U in Australia and New Zealand, comprising cash, trade and certain other receivables, inventory, certain other assets, trade creditors & accruals, lease liabilities and provisions (“net working capital”). In addition, NTD acquired fixed assets at their written down values.

NTD also acquired all intangible assets of T4U including trademarks, tradenames and the benefit of business contracts with suppliers and customers.

The value of net working capital and fixed assets on the completion date is expected to be about \$50m. When the value of the acquired T4U assets and liabilities as at the completion date has been determined, NTD will publish a Balance Sheet with pro forma adjustments to reflect the acquisition of T4U (the “bring on balance sheet”). It is anticipated that the consideration paid by NTD will be close to the book value of the net tangible assets being acquired.

Consideration & Transaction Costs

NTD paid the vendors \$48.7m for the net working capital, fixed assets and intangible assets of T4U. As mentioned above, the value of the net tangible assets being acquired will be determined by reference to a pro forma T4U balance sheet as at the completion date. Under the terms of the Acquisition Agreement, there is no working capital adjustment to the purchase price and NTD enjoys the benefits of most positive cash flow generated by T4U since 30 April 2020.

This purchase consideration consists of \$43.8m in cash and \$4.9m in NTD shares comprising:

- 10,617,107 fully paid shares in the issued capital of NTD to Tyres4U Pty Ltd (representing 9.4% of the undiluted expanded issued capital of NTD (excluding the additional shares described below) issued at an issue price of \$0.43, being the VWAP of NTD shares over 5 business days prior to the date of the Acquisition Agreement (17 July 2020). The shares are 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 \$4,558,030; and

- 698,796 fully paid shares in the issued capital of NTD valued at \$300,000 to Tyre & Tube Australia (Services) Pty Limited (**TTA**). These shares were issued at the same issue price of \$0.43 per share. The shares are 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 were 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 114,207,216 shares.

In addition, NTD will incur transaction costs (including stamp duty) of approximately \$1.9m, payable on or about the completion date. NTD assumes responsibility for investments in working capital and capital expenditure required by T4U after completion.

Funding

NTD has renegotiated its debt facilities with Commonwealth Bank of Australia (CBA) to include financial accommodation to refinance existing facilities, assist with the acquisition and provide new facilities for working capital, trade finance and contingent liability instruments.

The debt facilities available to NTD following this renegotiation are:

- a Multi Option Facility which, on the completion date, consists of:
 - a bank overdraft facility of \$5m;
 - a market rate term loan facility of \$12.5m; and
 - a trade finance facility of \$37.5m;
- an Equipment Finance Facility of \$5.5m;
- a Contingent Liability Facility of \$7m; and
- a Credit Card Facility of \$1m.

The market rate term loan element of the Multi Option Facility essentially refinances NTAW term debt that existed before the T4U acquisition. The Equipment Finance Facility is available for the purchase of vehicles and other equipment. The Contingent Liability Facility will be used to provide bank guarantees, letters of credit and similar instruments to suppliers and Lessors.

The Equipment Finance Facility will be progressively drawn down as needs arise.

Immediately prior to the completion date, NTD had cash of \$25.4m. On the completion date NTD utilised \$29.1m of the overdraft and trade finance facilities and \$14.7m of cash reserves to fund the cash component of the consideration payable to the vendors (\$43.8m).

In addition, NTD utilised the Multi Option Facility to refinance existing term debt (\$12.2m), bringing the total Multi Option Facility utilised on the completion date to \$41.3m.

On the completion date NTD also utilised all of the Contingent Liability Facility to refinance Bank Guarantees and Letters of Credit issued to third parties (suppliers) in the ordinary course of the businesses of NTD and T4U.

Further details of the new debt facilities are contained in Annexure A to this Announcement.

Financial Position

NTD will release more information about the bring on balance sheet when unaudited financial statements for the period to the completion date have been completed.

NTD has issued guidance to a FY20 Operating EBITDA¹ (i.e. prior to the acquisition) of \$10.5-\$11m.

Given that NTD is acquiring net assets at or about their book value and having regard to 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;
- completion of a strategic review over the first few months after completion; and
- further work has been performed to estimate the value and timing of synergies that may be available.

NTD expects to publish its FY20 financial results in the week commencing 24 August 2020.

Peter Ludemann, CEO of NTAW said: "Everyone at T4U and NTD is extremely excited about this transaction and the opportunities it presents to better serve the interests of all our stakeholders – employees, customers, suppliers, shareholders, and our communities. I have no doubt that this transaction will allow T4U to offer better solutions and services to suppliers and customers as we navigate our way through the very challenging pandemic period".

NTD is being advised by Dentons and Pitcher Partners. T4U is being advised by Miles Advisory Partners and Hamilton Locke. Debt facilities have been provided by CBA.

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

ENDS

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

Annexure A

CBA Facility Information

The Multi Option Facility has a term of 3 years, apart from the overdraft element which will cease to be available after 12 months. The market rate term loan is to be reduced by instalments of \$2.5m per annum, with NTD having the right to increase the trade finance facility limit (presently \$37.5m) by an amount equal to any repayment of the market rate term loan.

The trade finance facility allows NTD to borrow, on any particular day, an amount equal to payments made to suppliers of stock in trade over the period of three months prior to the borrowing date. NTD can elect to borrow against these payments for periods of between 30 and 150 days. A new payment to a supplier triggers a new opportunity to borrow and fresh advances can be used to roll over existing advances as they mature.

All of the new debt facilities are available to NTD and its subsidiaries (other than Top Draw Tyres in South Africa) and CBA holds a general security over all of the assets and undertakings of NTD and all subsidiaries (other than Top Draw Tyres, which is a 50% owned subsidiary).

The new debt facilities have been structured in a way that recognises the fact that NTD is acquiring the T4U assets to assist T4U to enhance the performance of those assets and sustain improvements in profitability achieved over recent months. Accordingly, interest cover and net leverage ratio targets contained in facility covenants will not be tested until 30 June 2021.

The first target net leverage ratio target for NTD will be 3.5 times or better on 30 June 2021. "Net leverage ratio" means net total debt on the relevant calculation date divided by EBITDA over the 12 months prior to that calculation date. "Net total debt" means the sum of amounts of the Multi Option Facility, the Contingent Liability Facility and the Credit Card Facility outstanding less uncommitted cash on the relevant calculation date. NTD is required to meet progressively lower net leverage ratios over time, with the target falling to 2 times by 30 June 2023.

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.