



ASX Announcement

2 November 2021

ACQUISITION OF BLACK RUBBER

- **National Tyre & Wheel Limited (ASX: NTD) (“NTAW”) acquires Black Rubber for up to \$26.3 million in cash and scrip**
- **Highly complementary strategic fit, increasing NTAW’s truck tyre customer base and introducing a tyre retreading capability**
- **NTAW annualised revenue expected to be more than \$520 million**
- **EPS Accretive, expected EBITDA contribution of \$5.5m and NPATA accretion of 2.5 cps annualised**

National Tyre & Wheel Limited (ASX: NTD) (“NTAW”) is pleased to announce that, on 1 November 2021, it signed a share sale and purchase deed relating to the acquisition of all the issued capital of Black Rubber Pty Ltd and Black Rubber Sydney Pty Limited (together, “**Black Rubber**”) for a purchase price of up to \$26.3m (subject to adjustments for working capital, net indebtedness and earn out payments). Completion is expected to occur later today, 2 November 2021.

Strategic Rationale

NTAW imports and wholesales tyres and wheels in Australia, New Zealand and South Africa. NTAW products cover almost all vehicle types and distribution channels.

NTAW’s existing product portfolio includes commercial tyres for trucks and buses. Customers in this segment include truck fleet operators who prefer to deal with suppliers capable of an expansive product and service offering covering, amongst other things: pricing based on a cents per kilometre solution; tyre performance monitoring; fitting at customer depots; and retreading capabilities. Black Rubber specialises in offering these value-adding services and its business model is represented as follows:



Black Rubber was established by John Zelesco and Jim Raffa in 2013. Like the other founders of NTAW business units, Messrs Zelesco and Raffa are veterans of the tyre industry with a history of contributing to growth in large established companies, as well as successful entrepreneurship in their own companies.

More than 60% of Black Rubber's revenue comes from selling truck, bus and agricultural tyres to commercial fleets and other B2B customers. Usually, the products are accompanied by one or more of the value-adding services described earlier. Black Rubber operates as a tyre importer and retailer in WA (Perth and Port Hedland), QLD (Brisbane) and NSW (Sydney).

Black Rubber also gives NTAW access to tyre recycling via three retread factories in WA, QLD and NSW, delivering a boost to NTAW's sustainability credentials. This is a strategically important extension of NTAW's capabilities, with this market segment expected to grow as demand for recycled products increases.

Black Rubber's retread factories apply know how and use raw materials supplied by Michelin, one of the world's largest tyre manufacturers. Black Rubber has been a customer of Michelin products and has been authorised to use Michelin retread technologies for seven years.

It operates three of the four retread factories in Australia authorised to use Michelin materials and techniques and the longstanding and mutually beneficial relationship between Black Rubber and Michelin is expected to continue.

Black Rubber's retread production plants presently have available excess production capacity to accommodate expected future growth and the use of other tread materials in the plants, in addition to those supplied by Michelin, provides further manufacturing flexibility and opportunities.

Black Rubber provides NTAW with a number of strategic opportunities, including:

- introducing new customers to NTAW's truck fleet business in WA, where Black Rubber is a leader in value adding services (tyre performance monitoring, offsite service delivery and cents per kilometre pricing);
- applying Black Rubber expertise in value adding services to grow commercial revenue for both Black Rubber and NTAW in other States;
- extending NTAW's existing product portfolio into the growing retread segment of the market;
- revenue growth from the sale of Black Rubber retreads through NTAW's extensive distribution platform (including the Tyreright retail network of NTAW owned and licensed stores);
- rationalising Black Rubber's supplier base, including suppliers of retreading material (while also growing the use of premium Michelin retreads);
- generating economies of scale by providing Black Rubber with access to NTAW's shared services – IT, finance and administration, people & culture, supply chain and logistics; and
- advancing NTAW's journey to be a more sustainable business and tapping into the expected growth in demand for recycled products arising from community and government preferences.

Transaction Highlights

Under a Share Sale and Purchase Deed dated 1 November 2021 (“**Agreement**”) between NTAW and entities associated with its founders, John Zelesco and Jim Raffa (“**Vendors**”), NTAW has agreed to purchase all the issued capital of the Black Rubber entities from the Vendors.

The average earnings before interest, tax, depreciation and amortisation (“**EBITDA**”) of Black Rubber for the years ended 30 June 2020 (“**FY20**”) and 30 June 2021 (“**FY21**”) was \$5.5m, with EBITDA of \$6.4m in FY21. Before any contribution to earnings from the synergies and economies of scale outlined above, NTAW expects Black Rubber to generate EBITDA of around \$5.5m from revenue of approximately \$40.0m in the year ending 30 June 2022 (“**FY22**”). The forecast reduction in earnings in FY22 is mostly attributable to cyclically lower sales volume to a key customer.

NTAW has agreed to pay a purchase price up to \$26.3m, subject to adjustment for working capital and net indebtedness as well as potential earn out payments. This represents a multiple of 4.7 times Black Rubber’s forecast FY22 EBITDA and 4.1 times FY21 EBITDA.

The purchase price for the acquisition is a combination of cash and scrip and is payable as follows:

- a cash payment of \$19.9m will be made at completion;
- the issue of 1,071,430 fully paid ordinary shares in NTAW at an issue price of \$1.12 per share, based on the 10-day volume weighted average price per share in the period ended on 29 October 2021, with a value of \$1.2m (the “**Vendor Shares**”);
- an earn out payment up to \$2.6m based on the Black Rubber’s EBITDA result in FY22; and
- a further earn out payment up to \$2.6m based on Black Rubber’s EBITDA result in the year ending 30 June 2023 with the ability to earn a “catch-up” if the EBITDA target for FY22 is not met in full.

There will be an adjustment to the purchase price for Black Rubber’s working capital and actual non trading indebtedness within the month following completion.

Funding and Financial Impact

The cash component of the completion payment was funded from NTAW’s existing cash reserves and debt facilities.

NTAW’s debt facilities have been increased to \$89.0m. As a condition of this increase, Black Rubber will be required to join into the NTAW Group’s debt facilities by entering into a guarantee and general security agreement in favour of NTAW’s financier (Commonwealth Bank of Australia). As this will amount to the giving of financial assistance in connection with the acquisition of shares in Black Rubber, the financial assistance will require the approval of NTAW’s shareholders under section 260B(2) of the *Corporations Act 2001 (Cth)*. That approval will be sought at an extraordinary general meeting of NTAW shareholders to be held early in 2022.

The Vendor Shares will be issued within NTAW’s present issuing capacity under ASX Listing Rule 7.1. The Vendor Shares will be subject to voluntary escrow restrictions for 12 months from completion.

The acquisition of Black Rubber is expected to increase NTAW's annualised sales revenue to approximately \$520m. The forecast additional EBITDA of \$5.5m would result in NTAW's net profit after tax and before amortisation ("NPATA") increasing by \$3.1m, representing additional NPATA of 2.5 cents per share (on an annualised basis).

Management & Board

NTAW and the Vendors will enter into a Management Agreement in relation to the operation of Black Rubber during the period commencing on the completion date and ending on 30 June 2023. It is intended that John Zelesco will remain as CEO and a Director of Black Rubber. Jim Raffa will remain involved as a consultant. The Management Agreement does not impose any material adverse limitation on NTAW's ability to control Black Rubber. Mr Zelesco and Jason McCabe, the General Manager of Black Rubber, will execute new employment agreements as part of the transaction.

Mr John Zelesco, Black Rubber CEO said: "We see great opportunity to grow the Black Rubber business as part of the NTAW Group. We are very strong on delivering value adding services to commercial customers and retread manufacturing, but we need a national footprint and other resources to grow substantially beyond WA. Access to NTAW's national footprint and shared services will provide the impetus we need to achieve that growth".

Peter Ludemann, NTAW CEO, said: "John, Jim and their team have built a great business with shared principles and a complementary culture – focusing on a growing market segment and delivering outstanding customer service through innovation and expertise. Tyre retreading will fill a gap in our product portfolio and we look forward to offering this important category to our customers. It is also a significant step in our ongoing mission to be a more sustainable entity".

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

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Important Information and Disclaimer

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