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Company Announcement

NZX:NZA

NZ Automotive Investments Limited – Trading Update

In the interests of keeping the market informed of trading during the first four months of the 2023 financial year NZAI provides this update in the context of recent announcements about changes to the Board and Management, and in relation to the position of the Company's financier and auditor.

Financial metric	1 April 2022 to 31 July 2022 ($m)	Prior comparative period ($m)
Vehicle sales	3,028	3,164
Revenue & Income	27.7	25.1
COGS	22.7	19.5
Contribution margin	5.0	5.6
Operating costs	3.3	2.9
EBITDA	1.7	2.7
Underlying EBITDA[i]	2.0	2.7
NPAT	0.7	1.4
Underlying NPAT[i]	0.8	1.4

[i]*Excludes restructuring costs associated with Board changes and other non-recurring consulting costs. Underlying EBITDA and underlying NPAT are non IFRS measures.*

The numbers included in this announcement are unaudited.

Commentary

The overall environment of the first four months of the new financial year has been challenging, with inflationary pressure, economic uncertainty and rising interest rates all contributing to a tightening of household budgets. In addition, a considerable amount of time and effort has been spent managing changes at the Board and senior leadership levels.

It was a slower start to the financial year in terms of vehicle sales with the business continuing to navigate the Covid-19 Omicron variant in April. Despite this and other distractions, the Automotive Retail side of the business has had a reasonable performance in the first four months of the financial year, selling on average 779 vehicles per month from May onwards. This has seen unaudited revenue from vehicle sales increase by 13% on the same period last year to $24.9 million despite selling 4.3% less vehicles over the same period. This was a reflection of price increases on vehicles sold being passed on to cover the increased cost of vehicles purchased from Japan. Gross margins over the period were tight but improved from June onwards once pricing adjustments were made.

The new clean cars regime introduced in April has had an effect on vehicle sales across the industry. 2 Cheap Cars continues to be well positioned to meet the increasing demand for Hybrid/Electric vehicles. The total proportion of HEV/EV sales of all vehicles sold increased to 40% for the first four months of the year, up from 21% in the same period last year.

This has helped 2 Cheap Cars consolidate its position in the used car market, with estimated market share increasing to 7.4%, up from 6.9% in the same period last year[ii]. Used cars registered in New Zealand for the first time are down 10.9% for the period*.

The higher margin finance income side of the business had a slow start to the financial year, with income down 15.7% on the same comparative period. The number of vehicles sold with finance was down 21%, reflecting a penetration rate of 26%, compared with a rate of 32% for the same period in FY22. This was due to a number of factors, including: the ongoing challenges resulting from changes to lending standards which made it more difficult for some customers to access consumer finance and also increased time for our third party providers to process applications; the effect of the subsidies for clean cars; changes to the Company's F&I team; and general tightening of household budgets and rising interest rates in an inflationary environment.

Higher margin commission revenue from the sale of insurance products was down by 18% on the volume sold over the same period in FY22. This was caused by the lower finance penetration and the product sales mix which in turn was impacted by the clean car regime. However, the business has seen insurance penetration improve to 34% in July 2022.

The reduction in contribution margin can be attributed to: lower finance and insurance performance ($0.3 million); reduced sales volume contributed ($0.2 million) and tighter vehicle margins ($0.1 million).

Excluding non-recurring items, the operating costs across the Group were up 5% to $3.06 million, due mainly to the increase in sales and marketing spend of $0.2 million, the benefit of which is expected to be realised over the balance of the financial year and into FY 2024. Non-recurring consulting costs of $0.24 million were incurred in the period in relation to Board and Management changes and other consultancy engagements.

The investment in marketing, slightly lower sales volumes and the reduced performance of the finance and insurance side of the business have been primarily responsible for the drop in underlying net profit after tax to $0.828 million, as compared with $1.360 million for the same period last year. Unaudited NPAT is $0.657 million compared with $1.360 million for the same period last year.

Financial metric	As at 31 July 2022 ($m)	As at 31 Mar 2022 ($m)
Total debt	11.3	11.8
Net debt	4.9	8.0
Cash	6.4	3.8
Total equity	15.5	15.1

Financial metric	1 April 2022 to 31 July 2022 ($m)	Prior comparative period ($m)
Operating Cash flow	3.9	2.3

Operating cash flow has improved to $3.9m, up from $2.3m for the same period last year. The increase is largely due to a reduction of inventory levels which have reduced by 22% since 31 March 2022. The

Company is in a sound financial position, and in compliance with all of its banking covenants as at 31 July 2022. As at 31 July 2022 the Company had cash of $6.4 million, net debt of $4.9 million and total equity of $15.5 million.

The Company has expanded its dealership network by adding a new branch in New Lynn and is looking to expand its Wairau Valley site on Auckland's North Shore.

NZ Motor Finance

The Board had been considering the Company's finance company strategy, and whether that remains the most appropriate use of the Company's capital. Because of this, lending was paused in June, with the loan book reducing from $6.8 million at 31 March 2022 to $6.3 million at 31 July 2022. Due to the effect that the cost-of-living is having on borrower's ability to service debts and the fact that the loan book is being repaid to a lower level, arrears exposure on the loan book stood at 3.4% at 31 July 2022.

Board changes

As previously announced, the resignations of non-executive directors Charles Bolt, Tracy Rowsell and Tim Cook take effect on 20 August 2022. Executive director Eugene Williams' resignation as a director also takes effect from that date, as does his resignation from his executive role.

Two new independent directors – Michael Stiassny and Gordon Shaw will be appointed from 21 August 2022, and shareholders will vote upon their election as directors at the Annual Shareholders' Meeting on 2 September 2022.

[ii]Source: NZTA; based on 2 Cheap Cars' vehicle sales as a proportion of used cars registered in New Zealand for the first-time between 1 April 2022 and 31 July 2022.

**NZTA; based on used cars registered in New Zealand for the first-time between 1 April 2022 and 31 July 2022 compared to 1 April 2021 and 31 July 2021.*

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About NZ Automotive Investments Limited (NZAI)
NZAI is an integrated used automotive group operating throughout New Zealand via two subsidiaries: Automotive Retail and Vehicle Finance. NZAI's mission is to deliver quality cars and financing solutions at the most affordable prices to the average New Zealander. Operating under the "2 Cheap Cars" brand, its Automotive Retail company is one of the largest used vehicle sellers in New Zealand with 12 dealerships across the country. Its Vehicle Finance company operates under the "NZ Motor Finance" brand. www.nzautomotiveinvestments.co.nz