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Market announcement
NZX:NZA

FY23 results
Foundation reset brings improved profit in Q4

NZ Automotive Investments Limited (NZAI) (NZX:NZA) has today reported improved underlying earnings for FY23, largely driven by significant increases in the last quarter to 31 March 2023.

Summary of key results
(Figures quoted are in NZ dollars. Comparisons are made against FY22.)

- **Revenue and income:** $82.7m, increased 25%[1].
- **Vehicle sales:** Up 6% to 8,367.
- **Underlying EBITDA[2] including finance income:** $6.0m, up 26%.
- **Net profit after tax (NPAT):** $1.3m, down $1.3m (including $1.0m of restructuring FY23, $0.9m non-recurring income FY22)
- **Underlying NPAT**: $2.0m, up 18%.
- **Underlying earnings per share (EPS)**: 4.4 cents per share (cps) against 3.7cps for FY22.

The Company's full year revenue and income increase of 25% to $82.7m was driven by a boost in sales volumes against the same period last year, combined with inflationary uplift in the prices of vehicles sold.

While the New Zealand dealer to public used car market increased by 3% in the twelve months to 31 March 2023[3], 2 Cheap Cars' vehicle sales are up 6% for the year when compared with FY22.

Gross margins have notably improved in the last quarter on the back of optimised pricing and effective promotional activity, as well as improved finance penetration. The full year contribution margin is up 18% to $14.8m.

Operating costs (excluding non-recurring costs) have risen 2.3% to $8.8m, due to additional investment in marketing. Management are strongly focused on controlling cost increases.

Underlying EBITDA including finance income increased 26% to $6.0m in HY23. Higher vehicle sales volumes and improved vehicle margins in Q4 have contributed to the increase in underlying EBITDA including finance income.

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[1] *Includes interest income derived from NZ Motor Finance.*
[2] *Excludes restructuring costs associated with board changes and other non-recurring consulting costs. Underlying EBITDA and underlying NPAT are non-IFRS measures.*
[3] *Source: Autofile, dealer-to-public data.*

Interest costs, including that associated with leases were up 58% on FY22, reflecting changes in the official cash rate (OCR) and higher lending costs.

Non-recurring costs of $1.0m associated with significant changes at board and management level included in FY23 and a one-off lease gain of $0.9m in FY22 has seen NPAT fall to $1.3m from $2.6m in the previous corresponding period.

Underlying NPAT, excluding the non-recurring costs, increased by 18% to $2.0m in HY23. The profit in the last quarter represented 40% of the total year's profit.

Net operating cash flow excluding lending has improved to $10.9m, up from $0.6m for the same period last year. This is largely due to EBITDA profit and reduced inventory levels resulting from shipping constraints, coupled with more efficient stock management.

As at 31 March 2023, the Company is in compliance with all banking covenants and has cash of $3.8m, no net debt and total equity of $16.2m.

NZAI has appointed UHY Haines Norton Sydney as its new auditors and agreed a replacement trade finance facility for $5.0m with partner Finance Now with change over imminent. This will strengthen the Company's access to funds and improve cost of capital.

2 Cheap Cars

2 Cheap Cars grew its market share for the 12 months to 4.5%[4], up from 4.4% in the same period last year.

The business sold 8,367 vehicles in FY23 which is up 6% on the same period last year. Margin was deliberately prioritised over volume as management refocused the sales strategy on margin expansion.

2 Cheap Cars continues to be well positioned to meet the increasing demand for electric and hybrid vehicles (EV/HEVs). In FY23, the number of EV/HEVs sold as a proportion of total vehicle sales increased to 41%, up 4% on last year.

Online vehicle sales lifted to 17% of total sales. Website development is planned to further improve the customer journey, while increasing online sales and finance attachment.

Finance penetration rates decreased to 26% in FY23, down from 30% in FY22 due to the impacts form Credit Contracts and Consumer Finance Act lending regulations and lifts in the official cash rate (OCR). Disciplined focus from management saw the finance penetration improve to 29% in March 2023 and this positive trend has continued with April 2023 achieving over 35%.

The Government's Clean Car regime has constrained supply – and increased the cost – of used vehicles into New Zealand across the industry. 2 Cheap Cars has a reliable source of used cars from Japan and has increased prices to offset the cost pressure, consequently further supporting the Company's strategic focus on margin expansion.

Pricing and promotional activity has been optimised and the business has seen an uplift in margins in Q4, resulting in enhanced profitability.

The vehicle import industry is currently experiencing shipping capacity constraints. To navigate these difficulties, 2 Cheap Cars' are using additional shipping suppliers.

2 Cheap Cars continues to be well regarded in the marketplace, receiving the highly commended used

[4] *Source: Autofile - based on 2 Cheap Cars' vehicle sales as a proportion of dealer-to-public used cars sold in New Zealand from 1 April 2022 and 31 March 2023.*

car dealer award from the Readers Digest for 2023 to add to previous accolades.

<u>NZ Motor Finance</u>

The Board has taken the decision to focus on the core vehicle retailing business and to act as a finance agent. As a result, the NZ Motor Finance loan book will remain in run down mode with the business collecting the loan receivables and recouping investment.

NZ Motor Finance made a loss of $0.16m for the year, due to no new lending taking place since June 2023 and reversing a fair value gain generated through previous years' lending.

The loan book reduced from $6.8m at 31 March 2022 to $3.9m at 31 March 2023. Loan book arrears are being carefully managed by the business.

<u>Dividend</u>

As the Company transitions to deliver profitable growth, the Board has taken the prudent approach to retain capital and no final dividend will be paid. The Company anticipates recommencing dividend payments in HY24.

<u>Outlook for FY24</u>

With the foundations now reset, the Company is sharply focused on energising a more profitable vehicle retail business, alongside stronger lucrative finance and insurance penetration rates.

2 Cheap Cars has a very clear value proposition and is seeing good demand for vehicles and finance and insurance driven by immigration, the Government's clean car regime, and the tightening economic environment. The vehicles sold by 2 Cheap Cars fulfil a basic and essential need. Therefore, despite the economic headwinds, the market segment is expected to remain buoyant.

Priorities to improve profitability:

- **Gross margin expansion –** Margin delivery will take priority over market share.
- **EV/HEVs** – Further leveraging our leadership position by supplying an unrivalled range of quality, affordable vehicles.
- **Supply chain** – Focusing on a quality first approach, navigating shipping risks and progressing insourcing some compliance for cost and control upsides.
- **F&I** – Finance and insurance acceleration plan is well underway, providing an incremental and highly profitable stream.
- **Three-year strategic property plan –** focusing on retail locations where the 2 Cheap Cars scale model works, providing opportunities for profitable growth.
- **Increase in NPAT** – Assuming favourable supply and trading conditions, NPAT expected to double to between $3.8m and $4.2m by concentrating on gross margin expansion, prudent cost management and increasing direct control of value chain.

CEO, Paul Millward said last quarter results, in particular, have been very encouraging.

"The Board and management are pleased to see solid progress being made having spent six months resetting the foundations of 2 Cheap Cars. In the last three months to April 2023, the business has seen markedly improved financial performance through gross margin expansion. The Company is now in a good position to leverage its strengths, realise its considerable potential and grow shareholder value,'' he says.

Ends

This announcement has been authorised by NZAI Chair, Michael Stiassny.

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About NZ Automotive Investments Limited (NZAI)
NZAI is an integrated 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 13 dealerships across the country. Its Vehicle Finance company operates under the "NZ Motor Finance" brand. www.nzautomotiveinvestments.co.nz