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FIRST SUPPLEMENTARY TARGET'S STATEMENT

This document is the First Supplementary Target's Statement under section 644 of the *Corporations Act 2001* (Cth) (**First Supplementary Target's Statement**) to the Target's Statement dated 6 June 2017 (Target's Statement) issued by **Automotive Solutions Group Limited ACN 613 474 089 (ASGL or Company)**. This First Supplementary Target's Statement is dated 4 July 2017.

The First Supplementary Target's Statement is in relation to the market takeover bid by **AMA Group Limited ACN 113 883 560 (AMA or Bidder)** for all of the ordinary shares in ASGL (**Offer**).

LEGAL ADVISER

GRT LAWYERS 

General

Unless the context requires otherwise, defined terms in the Target's Statement have the same meaning in this First Supplementary Target's Statement. This First Supplementary Target's Statement prevails to the extent of any inconsistency with the Target's Statement.

A copy of this First Supplementary Target's Statement has been lodged with ASIC on 4 July 2017. Neither ASIC nor any of its officers takes any responsibility for the contents of this First Supplementary Target's Statement.

Update

The Company provides updates to Shareholders surrounding the comparative valuation model utilised in the Target's Statement, further details concerning the updated Earnings Guidance and more specifics in relation to the turnaround strategy.

The Company also provides the Investor Presentation June 2017, as released to the ASX, in Schedule 1 of this First Supplementary Target's Statement to update to Shareholders.

YOUR DIRECTORS CONTINUE TO UNANIMOUSLY RECOMMEND THAT YOU...**REJECT THE OFFER**

Consents

The following persons have given and have not, before the date of this First Supplementary Target's Statement withdrawn their consent to the inclusion of the following information in this First Supplementary Target's Statement in the form and context in which it is included, and to all references in this First Supplementary Target's Statement to that information in the form and context in which they appear:

Each Director and Competent Person – to be named in this First Supplementary Target's Statement and to the inclusion of statements made by them.

Authorisation

This First Supplementary Target's Statement is dated 4 July 2017 (being the date on which this First Supplementary Target's Statement was lodged with ASIC) and has been approved by a resolution passed by the Directors on 4 July 2017.

Signed for and on behalf of Automotive Solutions Group Limited:



Tom Phillips
Executive Chairman
Automotive Solutions Group Limited

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KEY DATES

| | |
|--|--------------|
| Date of the Bidder's Statement | 23 May 2017 |
| Date of the Target's Statement | 6 June 2017 |
| Offer Period officially commences | 6 June 2017 |
| Date of the First Supplementary Bidder's Statement | 8 June 2017 |
| Date of the Second Supplementary Bidder's Statement | 14 June 2017 |
| Date of this First Supplementary Target's Statement | 4 July 2017 |
| Close of the Offer Period (unless extended or withdrawn) | 7 July 2017 |

Section 1 - Further disclosure to Shareholders

1.1 Supplementary information on undervalue statements

The Directors relied upon analysis using the Capitalisation of Future Maintainable Earnings ('CME') valuation methodology to determine that the Offer does NOT represent full value. The CME valuation methodology involves identifying a maintainable earnings stream for an entity and multiplying this earnings stream by an appropriate capitalisation multiple. The capitalisation multiple is determined by considering trading and transaction earnings multiples of broadly comparable companies.

In the Directors' view, this methodology and in particular, comparable trading and transaction earnings multiples are relevant for investors to consider because:

- the Initial Portfolio of ASGL was purchased on a multiple of earnings;
- the IPO of ASGL was priced on a multiple of earnings;
- companies such as ASGL are often transacted based on a multiple of earnings; and
- other commonly accepted valuation approaches are less relevant. For example:
 - asset based valuations ignore goodwill which formed a significant amount of the purchase price for the Initial Portfolio; and
 - discounted cash flow valuations are more difficult for investors to understand (relative to the CME methodology) given that companies are generally reluctant to provide earnings guidance beyond a 12 month period and cash flow forecasts over a longer period are more likely to rely on hypothetical assumptions.

1.2 Comparison multiple as a reasonable approach

The Directors relied upon analysis using broadly comparable trading multiples to determine that the Offer does NOT represent full value. ASGL is a vertically integrated business engaged in a range of activities including the design, manufacture, distribution and retailing of 4WD aftermarket parts and accessories. The Directors' conducted research into listed companies that operate in the auto parts and equipment sector and participate in similar activities as ASGL, including consideration of companies that supply the automotive aftermarket and 4WD sectors.

Table 1.2 in the Target's Statement contained trading multiples which are considered by the Directors to be broadly comparable with ASGL. These include:

- AMA Group Limited: operates in the wholesale vehicle aftercare and accessories market in Australia;
- ARB Corporation Limited: designs, manufactures, distributes, and sells motor vehicle accessories;
- Autosports Group Limited: a group of dealerships, focused on prestige and luxury motor vehicles. The Company also provides aftermarket sales and sells motor vehicle parts to retail and trade customers;
- Bapcor Limited: provides automotive aftermarket parts and accessories;

- MotoCycle Holdings Limited: operates motorcycle dealerships. The Company is also involved in the sale of motorcycle accessories and parts; and
- PWR Holdings Limited: provides cooling products for high performance and racing vehicles. The Company also offers its cooling solutions for the automotive aftermarket sector, as well as for 4WD and off-road vehicle applications.

1.3 Comparison only to selected entities listed on the ASX

The Directors relied upon analysis using broadly comparable trading multiples of ASX listed entities only, to determine that the Offer does NOT represent full value.

In the Directors' view:

- The companies listed as broadly comparable in Table 1.2 of the Target's Statement are exposed to similar business drivers and risks as to what ASGL is exposed to.
- Of the available companies listed on the ASX, the companies set out in Table 1.2 of the Target's Statement are the most comparable.
- The Australian equity market accommodates a wide diversity of companies (by size, type, and stage of life-cycle development) within a single regulatory framework and as such, this makes the Australian market different to many of its global peers. The ASX market encompasses a relatively small number of very large companies, a larger number of mid-sized companies and a very long tail of small companies.
- Additionally, Australian companies are subject to different business drivers and business risks than foreign entities due to the different markets in which they operate in.
- Accordingly, entities listed on other exchanges in the Directors' view are not broadly comparable to ASGL and are in fact less comparable to ASGL, due to the different market conditions, drivers and business risks that those foreign entities are exposed to.
- Companies based in Australia and listed on the ASX were therefore chosen as comparable companies being in the Directors' view, the most relevant for comparison as they are exposed to the same market conditions, business drivers and risks.

Although the companies listed in Table 1.2 of the Target's Statement have been selected as they are regarded to be broadly comparable to ASGL, differences exist between ASGL and each of the comparable companies. In particular, it is noted that:

- There are significant size differences between the companies in Table 1.2 of the Target's Statement and ASGL; and
- The mix of products and services provided by each of the companies in Table 1.2 of the Target's Statement is different to those of ASGL.

Notwithstanding the above differences, it is usual to construct a multiple from the best available market information when applying a CME methodology and this is consistent with the Directors experience through the IPO process and consolidation of the Initial Portfolio.

1.4 Reasonable basis for updated Earnings Guidance

The earnings guidance released to the market in table 1.4 of the Target's Statement was based on a profit and loss line-item build for each of the eight businesses within ASGL's portfolio. This was conducted in partnership with the general managers within each of the businesses. The build incorporated the expected trading performance of each business over the six months to December 2017.

The Board and management have been executing the turnaround strategy (further outlined in section 1.5 of this First Supplementary Target's Statement) in recent months, which will be improving the performance of these businesses in 1H FY18. Further detail of the turnaround strategy is included in the Investor Presentation as released to the ASX, included in Schedule 1 of this First Supplementary Target's Statement.

The Turnaround Strategy includes a cost reduction program which will impact 1H FY18, and the business turnaround program which is currently underway.

The Board have reviewed the financial forecast for each of the eight businesses in the portfolio, considered those forecasts against current operating performance and conditions and have approved the earnings guidance provided.

The increased Earnings Guidance is evident through the figures provided in the tables below.

| 2H FY17 | EBIT (\$m) |
|------------|------------|
| Prospectus | 3.2 – 3.3 |

| 2H FY17 | EBIT (\$m) |
|------------------|------------|
| With Umhauers | 0.8 – 0.9 |
| Without Umhauers | 1.3 – 1.4 |

| 1H FY18 | EBIT (\$m) |
|---------------|------------|
| ASGL Guidance | 1.4 – 1.5 |

1.5 Turnaround Strategy delivering an updated Earnings Guidance

The turnaround strategy as outlined below provides for an increase in the Earnings Guidance:

- The Umhauers business, situated across two locations at Geelong and Warrnambool in Victoria, has delivered improved financial performance since the commencement of the turnaround program in April.
 - Preliminary June financial results suggest that the larger of the two sites, located in Geelong, has improved to a breakeven EBIT position in June 2017. This outcome suggests that the EBIT losses from the Geelong site will not extend in the future, which is reflected in the 1H FY18 guidance figures provided to the market.
 - A number of potential solutions are being evaluated for Warrnambool, the Directors anticipate making a final decision in 1H FY18.
- The earnings guidance is based on profit and loss line-item build for each of the eight businesses. This was conducted in partnership with the General Managers within each of the businesses.
- The Board and management have been executing the turnaround strategy in recent months, which will be improving the performance of the Group in 1H FY18.
- Turnaround strategies being implemented through the individual businesses are outlined in the Investor Presentation in Schedule 1 of this First Supplementary Target's Statement.

1.6 Development of National Brand Strategy

Significant marketing collateral and IP has already been developed and secured.

As a result of ASG's review of its sales and marketing functions, all ASG's existing businesses will predominately transition to a single brand name.

ASG expects the new brand structure will create internal synergies but also allow potential expansion into adjacent, complementary product categories. The move will also provide greater efficiencies for resellers, as it will allow them to display a range of ASG products under the one brand banner.

Branding initiatives are already under way, with the equity in local markets considered for the application of a structured brand transition program.

1.7 Board's review of business initiatives and provision of updated earnings guidance

Based on the list of initiatives cited in the Target's Statement, the Directors drew conclusions between how these initiatives will result in the updated earnings guidance in table 1.4 of the Target's Statement.

The Company performed a forecast Profit & Loss build for each of the eight divisions in the Group for FY18. This incorporated a review of historical performance, and divisional forecasts with input and feedback from the divisional leaders within each of the division.

The Board reviewed the forecast for each division, with comparisons to the historical performance of each division, and current trading outlook. The Board agreed on the final forecast which incorporated the earnings guidance provided to the market.

1.8 Business initiatives and earnings guidance risks and qualifications

Consideration by the Board of the risks and qualifications in relation to the business initiatives and the earnings guidance are provided below.

The Directors considered that the forecasted earnings guidance is a prediction only and is subject to inherent risks and uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors. Those risks and uncertainties include factors and risks specific to the industry in which ASGL operates as well as general economic conditions and conditions in the financial markets. Many of these risks are beyond the control of ASGL.

In addition to the general risks that may impact ASGL, such as the trading price of shares and the speculative nature of investments, there are specific risks associated with the Company's existing and proposed operations. These include:

1. customer demand across the categories and segments within which the Company operates;
2. contractual relationships with manufacturers and distributors;
3. interruption of the supply of parts, both internally manufactured and through external supply;
4. integration risk of the ongoing integration program;
5. foreign exchange rate risk;
6. availability of funding;
7. loss of key customers;
8. increased bargaining power of customers and competition generally in the markets in which ASGL operates;
9. reliance on key personnel and employee recruitment and retention;

10. changing customer preferences; and
11. reputational risk, including product defects and/or failures and warranty risks.

The Board also considered the risk that a downturn in general economic conditions in Australia could also adversely impact the demand for automotive services and parts, as products sold by ASGL are discretionary items for many customers.

Section 2 - Glossary

2.1 Definitions

The following additional terms are inserted into the Target's Statement.

| | |
|-------------------|---|
| CME | Means Capitalisation of Future Maintainable Earnings. |
| Initial Portfolio | means the eight (8) cornerstone businesses that formed the foundation of ASGL prior to the IPO. |
| IPO | means initial public offering of shares. |

2.2 Interpretation

Unless the context otherwise requires:

- headings used in this First Supplementary Target's Statement are inserted for convenience and do not affect the interpretation of this First Supplementary Target's Statement;
- words or phrases defined in the Corporations Act have the same meaning in this First Supplementary Target's Statement;
- a reference to a "Section" is a reference to, as relevant, a section of this First Supplementary Target's Statement or the Bidder's Statement;
- a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- the singular includes the plural and vice versa;
- the word "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency; and
- Australian dollars, dollars, A\$ or \$ is a reference to the lawful currency of Australia.

Schedule 1

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27 June 2017

Further details on turnaround strategy and earnings guidance

Automotive Solutions Group Limited (ASX:4WD, "ASG" or the "Company") is pleased to release an updated investor presentation which provides increased disclosure on the Company's turnaround strategy.

The turnaround strategy has been developed to improve the Company's performance with the Company identifying a number of areas to enhance operational efficiency in order to improve profitability throughout its business units. These areas are outlined in the Target's Statement released by ASG to the market on 6 June 2017.

The Company also reiterates its guidance for earnings before interest and tax (EBIT) for 1HFY2018 of \$1.4 million to \$1.5 million as released by ASG to the market on 6 June 2017.

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Investor presentation – June 2017

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All currency amounts are in AUD\$ unless stated otherwise.

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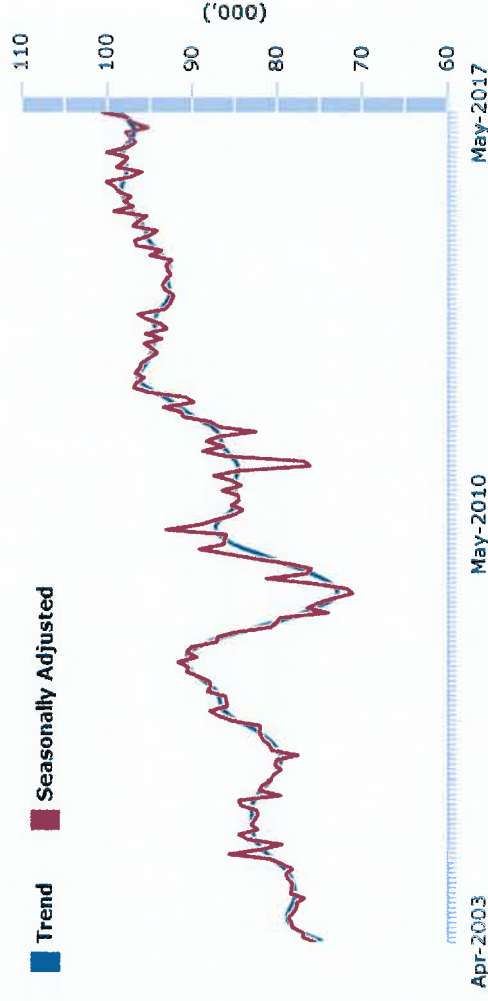
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4X4 MARKET OPPORTUNITY

- **ASGL** has entered into the strong growth market of 4x4/SUV's with sales of both of SUV's and Light Trucks (which includes 4WD's) growing rapidly and estimated to make up 60% of the market by 2023.
- In 2016 we saw the Toyota Hilux be the best selling car model in Australia and the first time a commercial vehicle took the title rather than a passenger car. The Ford Ranger came in forth making two out of the top four vehicles 4WDs.
- The trend for new motor vehicle sales continues to be strong and growing (see graph to the right). Over 1.1m new vehicles were purchased last year, the seventh year in a row the market topped 1m.
- Caravan and campervan registrations are increasing and remains the fastest growing vehicle type in Australia. Due to towing requirements 4x4/SUV's are often the preferred vehicle for these buyers.
- Motor Vehicle parts retailing continues to record steady revenue growth and industry revenue is expected to continue its steady rise. The rise in motor vehicles will also see boosts in demand for motor vehicle parts and accessories.

New motor vehicle sales, total vehicles – long term



Sources:

- Federal Chamber of Automotive Industries
- IBISworld
- Australian Bureau of Statistics
- Drive.com.au
- Caravanstats.com.au

TURNAROUND STRATEGY MOMENTUM

Current turnaround momentum has resulted in guidance upgrade for 1HFY18 \$1.4-\$1.5m

Key turnaround strategies include management change, rebranding, changing product mix and operating efficiencies.

| Focus area | Action |
|------------------------|---|
| Management change | <ul style="list-style-type: none">• Acting COO Bryce Wedemeyer appointed• Tom Philips as Executive Chair appointed• Turnaround specialist Andrew Johnson appointed |
| Rebranding | <ul style="list-style-type: none">• Single brand to unify all products• Brand transition well underway• Traditionally "Aussie" brand and imagery• Clear "good, better, best" hierarchy to give strong brand proposition throughout retail and dealer network• 10 outlets rebranded to premium reseller status |
| Changing product mix | <ul style="list-style-type: none">• Drive new sales• Expand margin• Reduce cost |
| Operating efficiencies | <ul style="list-style-type: none">• Integrated center of excellence in Victoria |

SUMMARY OF INITIATIVES BY BUSINESS UNDERWAY (1/2)



- Expanding into Victoria, utilizing the manufacturing and retail assets of Barden's and Umhauers. Sales revenue from Victorian operations forecast to begin in July
- Co-ordinating design activities including utilization of steel/aluminum designs
- Investigating alternative supplier arrangement including distribution in Victoria
- Grant for factory optimization currently underway



- Leverage Roo marketing and sales expertise across the Group
- Implementing alternative reseller model for network expansion. Finance of tuning equipment approved to be supplied to 50 – 70 new resellers



- Expanding Uneek business and product offering
- Change of product mix and focus on internal product manufacture by Barden
- Integrating center of excellence – Barden, Uneek, AMA 4WD and ASG 4x4 in Victoria



- Change of product mix and margin review implemented
- Increased quoting, reduced lead time for fitment
- Objective to achieve breakeven



SUMMARY OF INITIATIVES BY BUSINESS UNDERWAY (2/2)



- Pursuing grant for factory optimization to increase vehicle production
- Expansion of retail presence/showroom in Toowoomba and product distribution in North Queensland
- Integration of ASG 4x4 in Barden's center of excellence



- High demand for Walkinshaw tuning
- Expansion of Walkinshaw network to be explored
- Explore further opportunities to work with Walkinshaw to expand business



- Establishing East Coast distribution hub from Banyo
- Leveraging and promoting National Luna fridge range
- Converting Dolium buyers to other ASGL group products



- Expansion of product offering in stores
- Leveraging the strength of the Deering business being its name, workshops and mobile fleet within the WA market



COMPARISON OF EARNINGS GUIDANCE AND FORECASTS

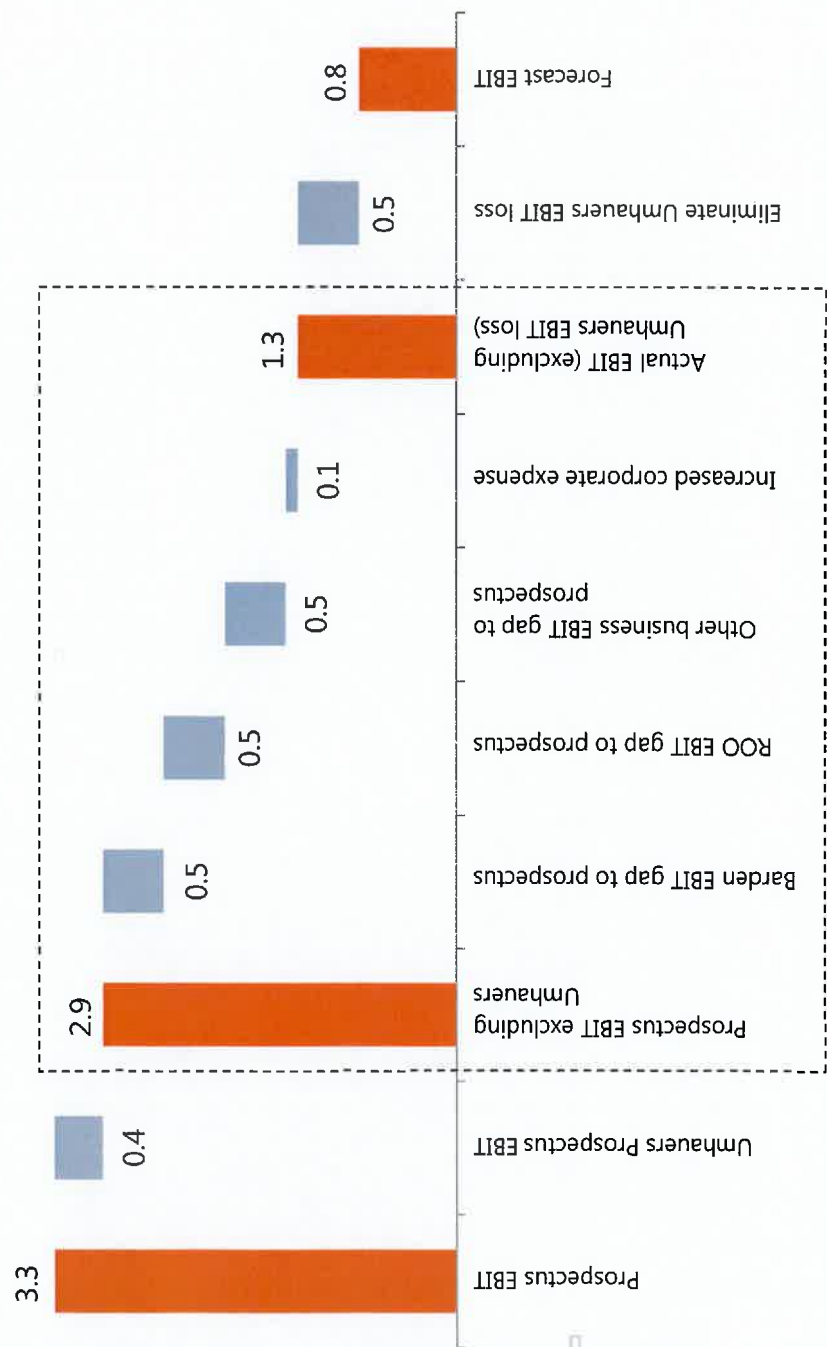
| 2H FY17 | EBIT (\$m) | 2H FY17 | EBIT (\$m) | 1H FY18 | EBIT (\$m) |
|------------|---------------|-----------------------------------|--------------------|---------------|---------------|
| Prospectus | 3.2-3.3 | With Umhauers Without Umhauers | 0.8-0.9 1.3-1.4 | ASGL guidance | 1.4-1.5 |

- Eliminating the losses of the Umhauers business represents an improved position for ASG.
- The 1H FY18 earnings guidance is based on profit and loss line-item build for each of the eight businesses. This was conducted in partnership with the General Managers within each of the businesses.
- The board and management have been executing the turnaround strategy in recent months, which will be improving the performance of these businesses in 1H FY18. This includes a cost reduction program which will impact 1H FY18, and business turnaround program currently underway.
- A number of planned revenue and cost initiatives including: further expansion of the product offering, re branding initiatives, integrated centre of excellence in Victoria, 10 outlets upgraded to premium reseller status.
- 4WD reiterates its 1HFY18 earnings guidance range of \$1.4-\$1.5m, an improvement of ~70% relative to \$0.8-0.9m 2H17 EBIT guidance:
 - Based on current run-rate performance, 4WD expects the turnaround momentum to continue.
 - 4WD is focused on eliminating the losses of Umhauers (currently ~\$0.5m EBIT per half).



FY17 2H EBIT BRIDGE BETWEEN PROSPECTUS AND REVISED EARNING GUIDANCE

FY17 2H EBIT (\$M)



- Eliminating the Umhauers EBIT loss is a strong step forward for the performance of ASGL.
- Slower than anticipated performance in Roo; however, strong order book.
- Revenue reduction in Barden due to postponement and deferral of certain fabrication orders, and increased cost pressures.
- Perth businesses affected by slow WA market.



GROWTH STRATEGY AND RETURNING SHAREHOLDER VALUE

- Directors and management are motivated and focused on turnaround and return of shareholder value.
- Current management and turnaround activities have already resulted in improved earnings guidance for 1H FY18.
- ASGL is still focused on:
 - **Driving organic growth** of the initial portfolio
 - Greenfield site development
 - Expand the portfolio of businesses through acquisition.
- Official brand re-launch at the Melbourne 4x4 show:
 - Single brand to unify all products and services
 - Traditionally 'Aussie' brand and imagery
 - Clear "Good, better, best" hierarchy to give strong brand proposition throughout retail and dealer network
 - Brand transition work already underway.

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