



ARB Corporation Ltd

4X4 ACCESSORIES

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Dear Shareholder,

The Directors of ARB Corporation Limited (“**ARB**” or the “**Company**”) are pleased to report that the Company achieved a net profit after tax of \$23.4 million for the half year ended 31 December 2016. After adjusting for a property sale in the previous corresponding period, underlying profit before tax for the period increased by 8.2% compared with the six months to December 2015. An increase in the average tax rate for the period limited the after tax increase to 5.6% on an adjusted basis.

Sales for the half year were \$185 million, an increase of 6.2% over the prior corresponding period.

The half year results are summarised below:

Six months ended	31 Dec 16 \$'000 Statutory	31 Dec 15 \$'000 Statutory	Change	31 Dec 15 \$'000 Underlying ¹	Change
Sales	185,150	174,315	6.2%	174,315	6.2%
Other Revenue	1,083	3,183		1,198	
Total Revenue	186,233	177,498		175,513	
Profit before Tax	32,189	31,748	1.4%	29,763	8.2%
Tax	(8,831)	(8,420)		(7,646)	
Profit after Tax	23,358	23,328	0.1%	22,117	5.6%
EPS (cents)	29.50	29.47		27.94	
Interim Dividend (cps)	16.0	14.5		14.5	
Franking	100%	100%		100%	

¹ Excludes Other Revenue and Profit before Tax of \$1,985,000 (Profit after Tax of \$1,211,000) associated with the sale of the Company’s warehousing facility in Seattle, USA

The Company intends to pay an interim fully franked dividend of 16 cents per share. The interim dividend will be paid on 21 April 2017 and the Record Date will be 7 April 2017.

HIGHLIGHTS OF THE HALF YEAR TO 31 DECEMBER 2016

Sales

Sales for the period grew by a respectable 6.2% over the previous corresponding period. As can be seen in the table below, sales growth was not consistent across the Group.

A summary of sales category performance for the period is as follows:

Customer Category	Percentage of Sales		Sales Growth
	6 months to Dec 2016	6 months to Dec 2015	
Australian Aftermarket	67.5%	68.2%	5.0%
Exports	25.2%	23.9%	12.1%
Original Equipment	7.3%	7.9%	(1.5%)
	100.0%	100.0%	6.2%

Sales to the Australian aftermarket grew by 5%. Sales growth was above average in Victoria and New South Wales. In Queensland, South Australia, Northern Territory and Tasmania growth was flat and in Western Australia sales declined.

Excellent growth of 12.1% in total was achieved in exports made from Australia, the USA, Europe and Thailand as well as the recently established sales and warehousing operation in Dubai in the Middle East. The stubbornly high Australian dollar against the US dollar limited the impact of excellent growth achieved in the USA.

As we have forecast for some time, sales to Original Equipment Manufacturers (OEM's) finally fell. However, the Company is working on a number of new contracts with OEM's that should improve sales in this category in the 2017/18 year and beyond.

Distribution

In the Australian aftermarket, the Company distributes through its market leading ARB store network to ARB stockists, to new vehicle dealers and to various fleet operators. Currently, there are 58 ARB stores in Australia, of which 25 are Company owned. This compares with 56 stores at 30 June 2016. The two new stores began operating in December 2016. It is anticipated that a further three ARB stores will be opened in the second half of the 2016/17 year.

As advised at last year's AGM, the Company is building a new Victorian warehouse. This will be located at Keysborough, Victoria and will allow the Company to exit a number of leased premises and update the Head Office facility at Kilsyth over the next few years.

The new sales and distribution facility established in Dubai in June 2016 is already providing useful sales to the Company and is certainly giving ARB much more opportunity to grow in the region.

Profits

As noted above, pre tax profit on an underlying basis increased by 8.2% over the previous corresponding period. However, the average Company tax rate on an underlying basis increased from 25.7% to 27.4%, reducing the after tax profit growth to 5.6%. The tax rate increased as a higher proportion of Company profits were generated in higher taxing jurisdictions. The Board expects the tax rate to moderate over the second half.

Products and Production

ARB regards product development as a key element in maintaining the Company's long-term competitive advantage. Research and development expenditure is continuing to increase.

The Company's product development team has been busy completing the suite of new products for the large number of new four-wheel drive vehicle models that were released in 2015/16. During the half year, more new vehicle releases have occurred both in Australia and overseas and new products are being released into the Company's factories on a weekly basis.

Each year at the Company's manufacturing facility in Thailand an annual bonus is negotiated with staff. This occurs during the second quarter of the financial year. Negotiations this year severely disrupted production in the months of November and December 2016. Although difficult to quantify, this affected both sales and profit growth across the Company for the first half. Apart from this interruption, production was at near full capacity in both the Thai and Australian production facilities. Both plants should continue to be busy in the second half.

Financial

ARB continues to maintain a healthy balance sheet with no debt.

The Company's strong financial position ensures that ARB can react quickly to appropriate opportunities, such as further earnings accretive capital projects or suitable acquisitions.

Exchange rates have fluctuated significantly over the period under review. The Company has some natural hedges through its operations in Australia, USA and Thailand and also through its purchasing and selling arrangements. However, changes in exchange rates affect costs in different geographic markets and management believes that more stable currency markets generally create a better business environment for the Company over the longer term.

THE FUTURE

Sales in the first six weeks of the second half of the financial year have continued to grow, which is pleasing. In the medium term, economic conditions in ARB's main markets remain unpredictable. Together with fluctuating foreign exchange rates, these factors create some difficulties for business. Nonetheless, demand for the Company's products still remains healthy in many countries around the world and the Company believes that satisfactory growth remains achievable in this environment.

In the longer term, ARB has growth plans in place, both in Australia and in export markets, which include new products and improved distribution. The Company's significantly increased distribution capacity provides the platform for growth.

With strong brands around the world, very capable senior management and staff, a strong balance sheet and growth strategies in place, the Board believes ARB is well positioned to achieve on-going success.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'R. Brown', enclosed within a large, loopy oval scribble.

Roger Brown
Chairman

22 February 2017