

MARKET UPDATE

MAY 2017



4X4 ACCESSORIES



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ARB Corporation Limited

May 2017

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Chairman**

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1. ARB Introduction



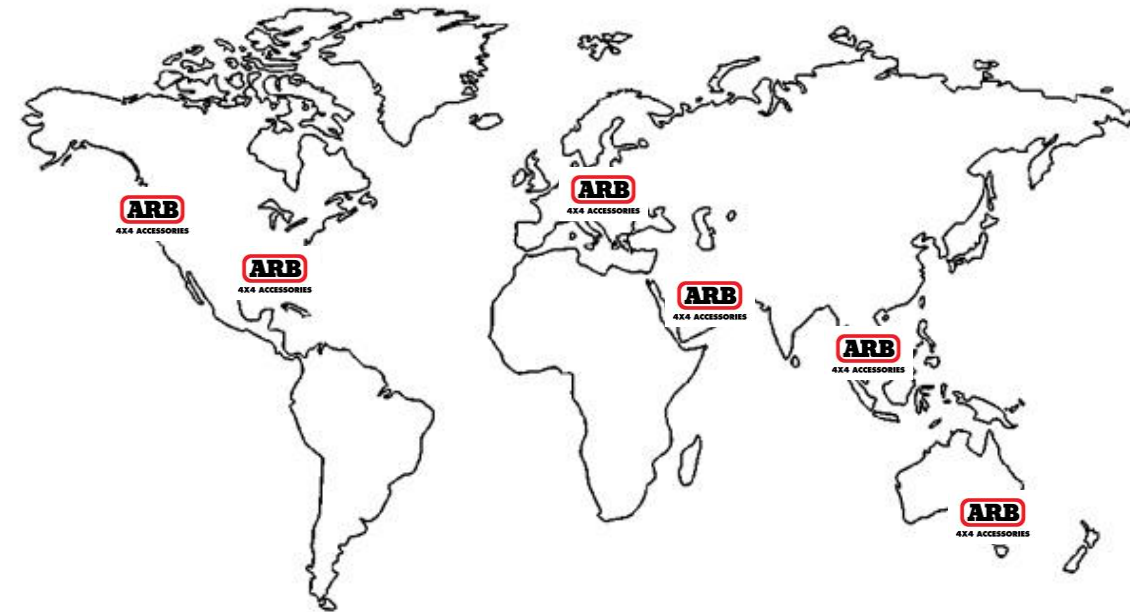
- ARB was established as a private company in 1975 and listed on the Australian Stock Exchange in 1987.
- The Company designs, manufactures, distributes and sells accessories for 4WD and light commercial vehicles.



- The Company has remained focused on its core business for the past 42 years to become the world leader in its field.

2. Overview of Operations

Global Footprint



- Annual sales of over \$360m
- 1,450 employees worldwide
- Authorised distributors in all key international markets

- Manufacturing plants in Victoria, Australia and Rayong, Thailand
- Sales, warehousing & fitting facilities across Australia
- Sales & warehousing in Rayong, Thailand
- Sales & warehousing in Seattle, Washington & Jacksonville, Florida USA
- Sales, warehousing & assembly in Prague, Czech Republic
- Sales & warehousing in Dubai, UAE

3. Financial Highlights

1H FY2017



Sales Revenue of

\$185.2m

Up 6.2%

- Sales growth of 6.2%
- Australian Aftermarket grew at 5.0% with strong results in Victoria and New South Wales
- Exports grew at 12.1% with solid growth across all regions
- Sales & distribution established in Middle East

Profit before Tax of

\$32.2m

*Up 8.2% on prior year normalised **

- The prior year Profit before Tax included a one off \$2.0m profit on a US property sale
- Normalised profit growth of 8.2% exceeded revenue growth of 6.2%

Profit after Tax of

\$23.4m

*Up 5.6% on prior year normalised **

- Profit after Tax was impacted by a higher proportion of group profits generated in higher taxing jurisdictions

** Normalised result excludes profit made last year on the sale of property in the US (PBT: \$2.0; PAT \$1.2m)*

3. Financial Highlights

1H FY2017



Operating Cash Flows

\$28.1m

Up 100%

- High conversion to cash of Profit after Tax (\$23.4m) and non cash expenses
- Inventory levels were well managed in the current half year, increasing \$1.3m or 1.4%

Debt

\$nil

Maintained

- No debt, consistent with the June 2016 financial year end
- Well placed to react quickly to opportunities, such as acquisitions or capital projects
- Cash balance of \$12.0m at 31st December 2016

Interim Dividend of

16 cps

Up 10.3%

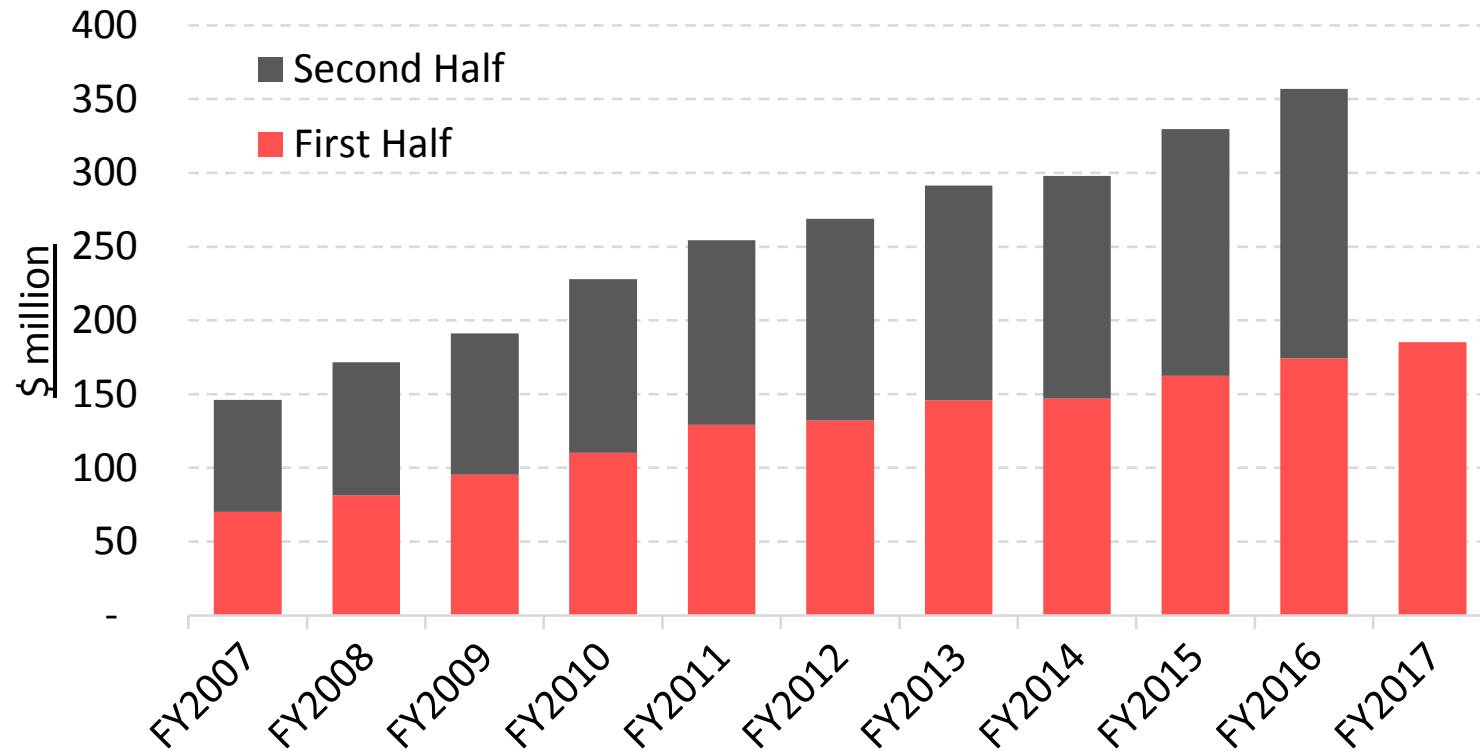
- Dividend payout ratio increased to 53%
- Profits retained allow for expansion and further investment opportunities
- Dividend fully franked

4. Performance – last 10 years



Sales Revenue: 10 Year CAGR: 10.4%

Sales revenue grew at an average compound rate of 10.4% between 2007 and 2016



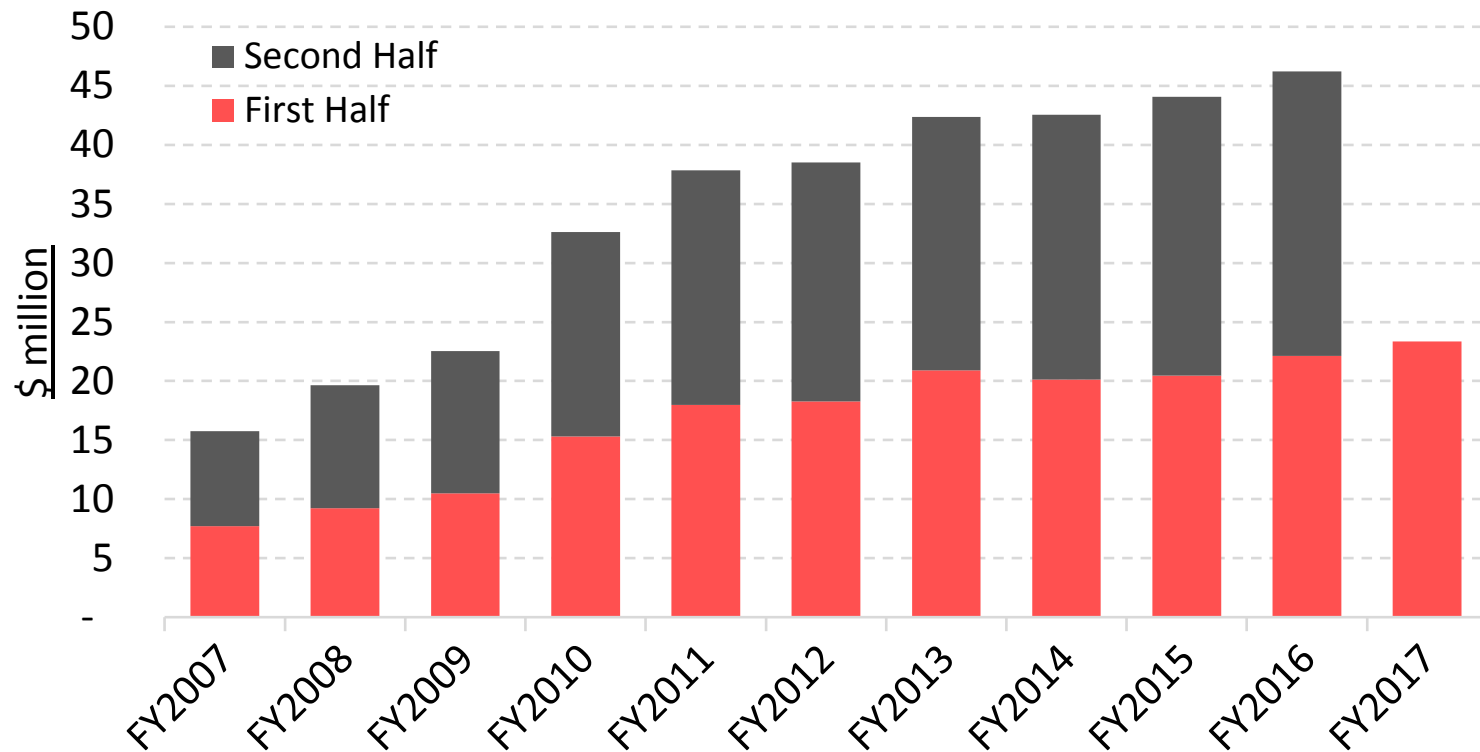
4. Performance – last 10 years



Profit after Tax : 10 Year CAGR: 12.7%

(excluding property sale in FY2016)

Profit after Tax grew at an average compound rate of 12.7% between 2007 and 2016

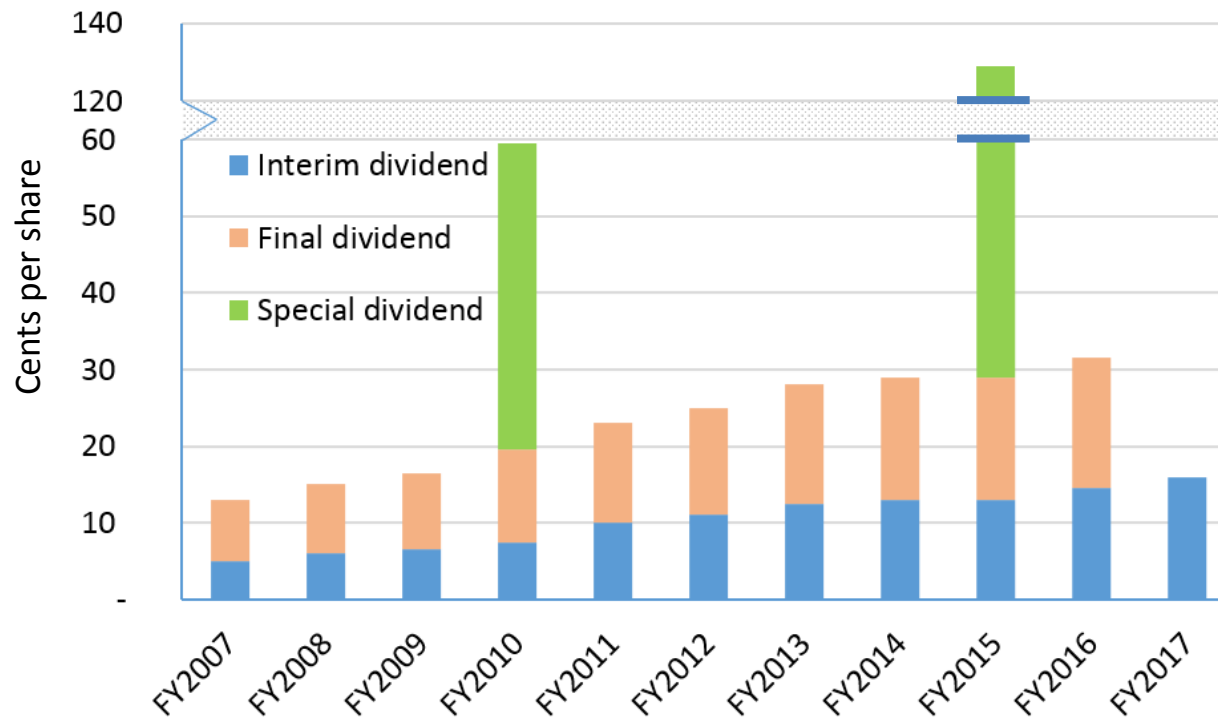


4. Performance – last 10 years



Dividends per Share

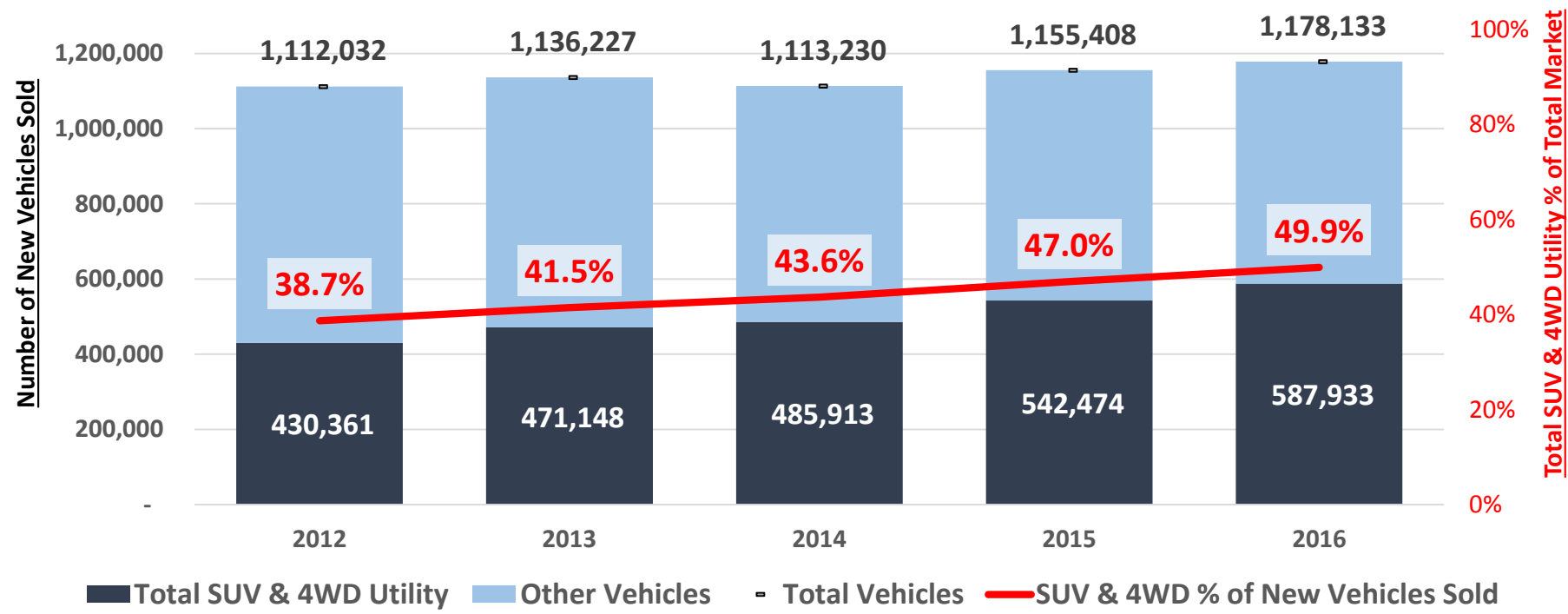
- Dividends paid have grown steadily over the last 10 years.
- Specials dividends were paid in FY2010 & FY2015.
- ARB actively manages its capital program.



5. Australian New Vehicle Sales



4WD Utilities and 4WD Sport Utilities (SUV's) have increased from 38.7% of new vehicles sold in 2012 to **49.9% of new vehicles sold in 2016**

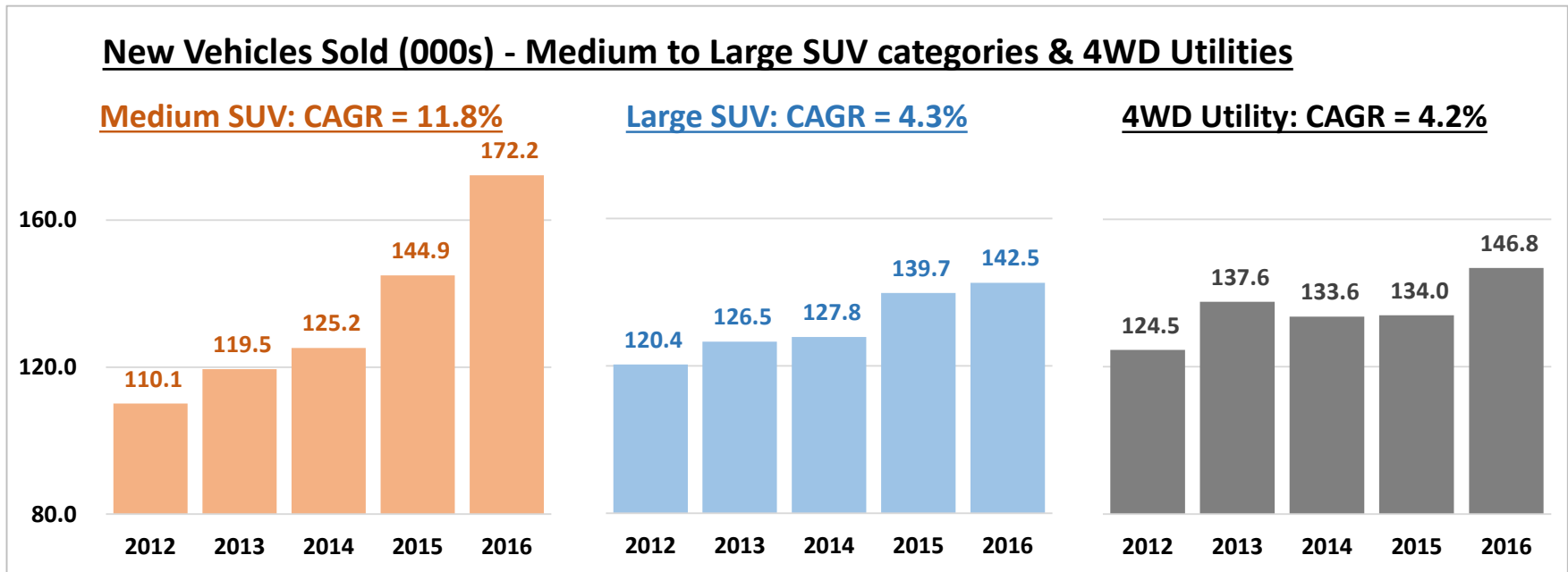


5. Australian New Vehicle Sales



ARB's largest groups of customers own:

- (i) Medium to Large SUV's; and
- (ii) 4WD Utilities (*typically dual cabs powered by turbo diesel engines*).



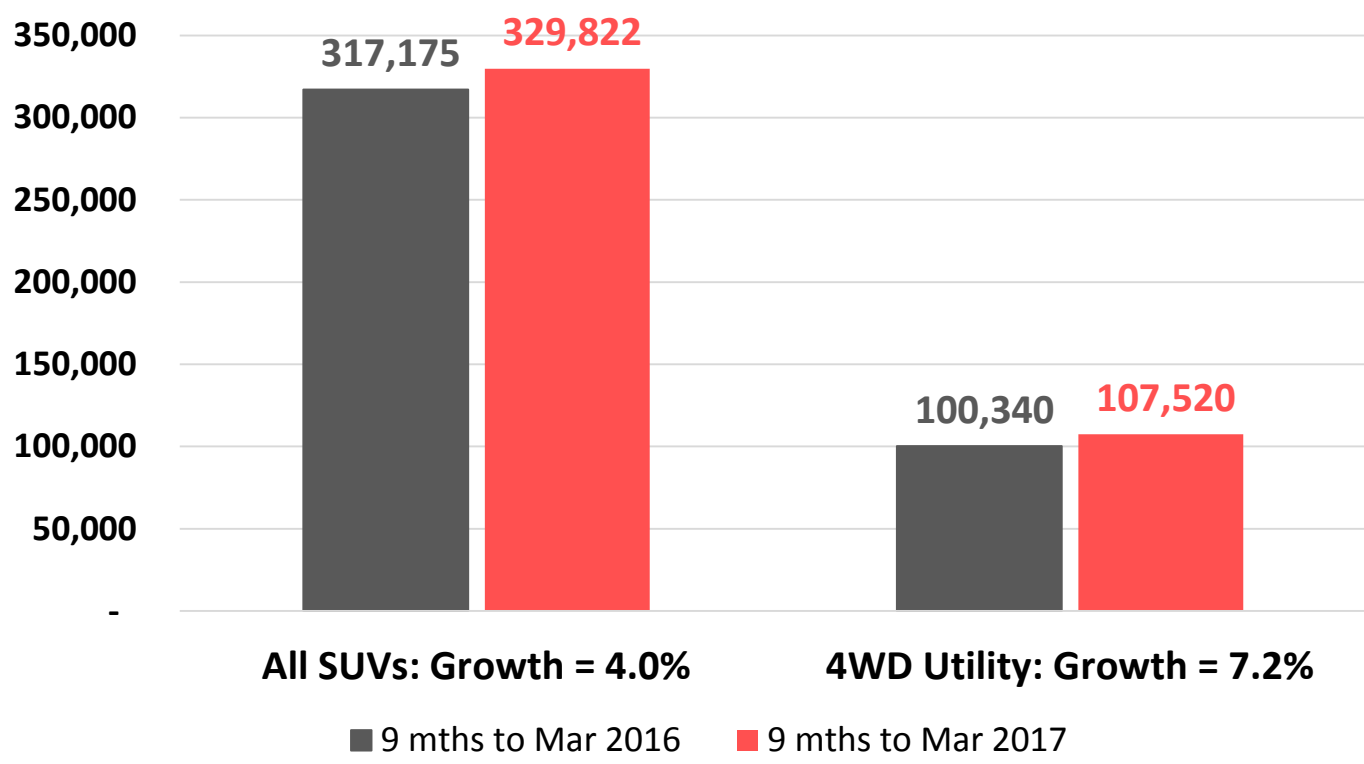
nb: Compact SUV's are the fastest growing category of SUV's with CAGR of 16.2%.

Small & luxury SUV's however are rarely accessorised and not a major market opportunity for ARB.

5. Australian New Vehicle Sales



4WD categories most important to ARB Financial YTD – 9 mths to March 2017

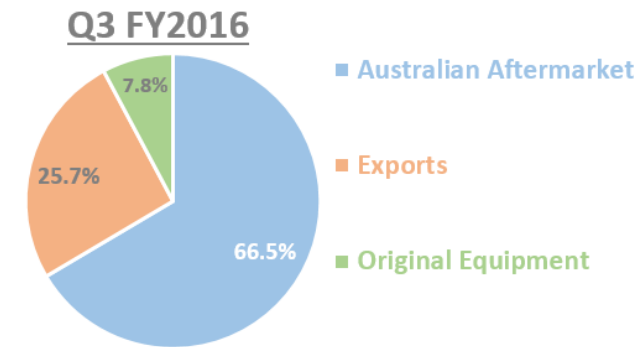
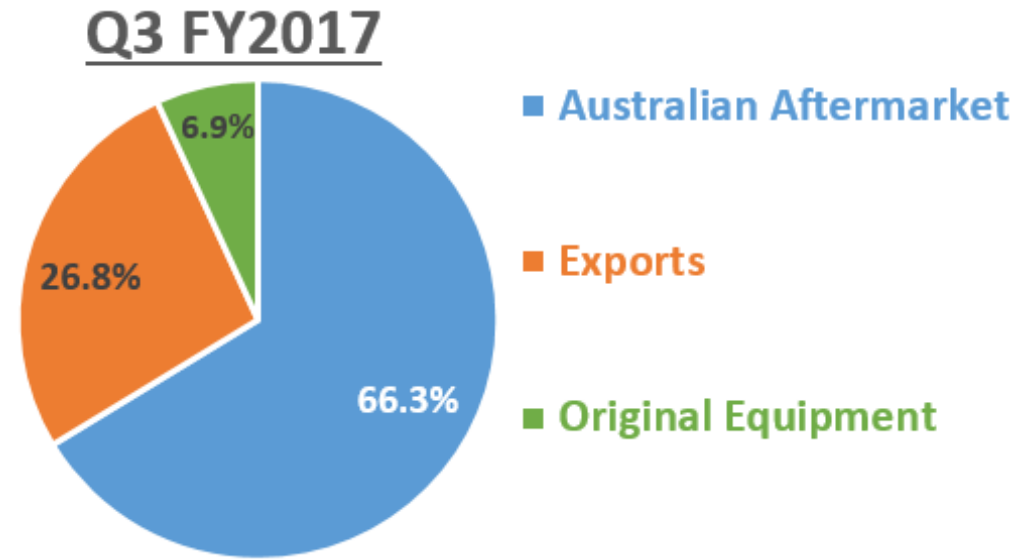


6. ARB Sales by Market Segment

Q3 FY2017 YTD



- Australian Aftermarket** **+5.8%**
(includes: ARB Aftermarket, Kingsley Enterprises, SmartBar, GoActive Outdoors)
 Variable growth across the country
- Export** **+10.8%**
 Strong growth in all regions
 Now 26.8% of group sales
- Original Equipment** **-5.7%**
 Declined due to the loss of some OE contracts flagged previously.
- TOTAL SALES GROWTH** **+6.2%**



6a. Australian Aftermarket



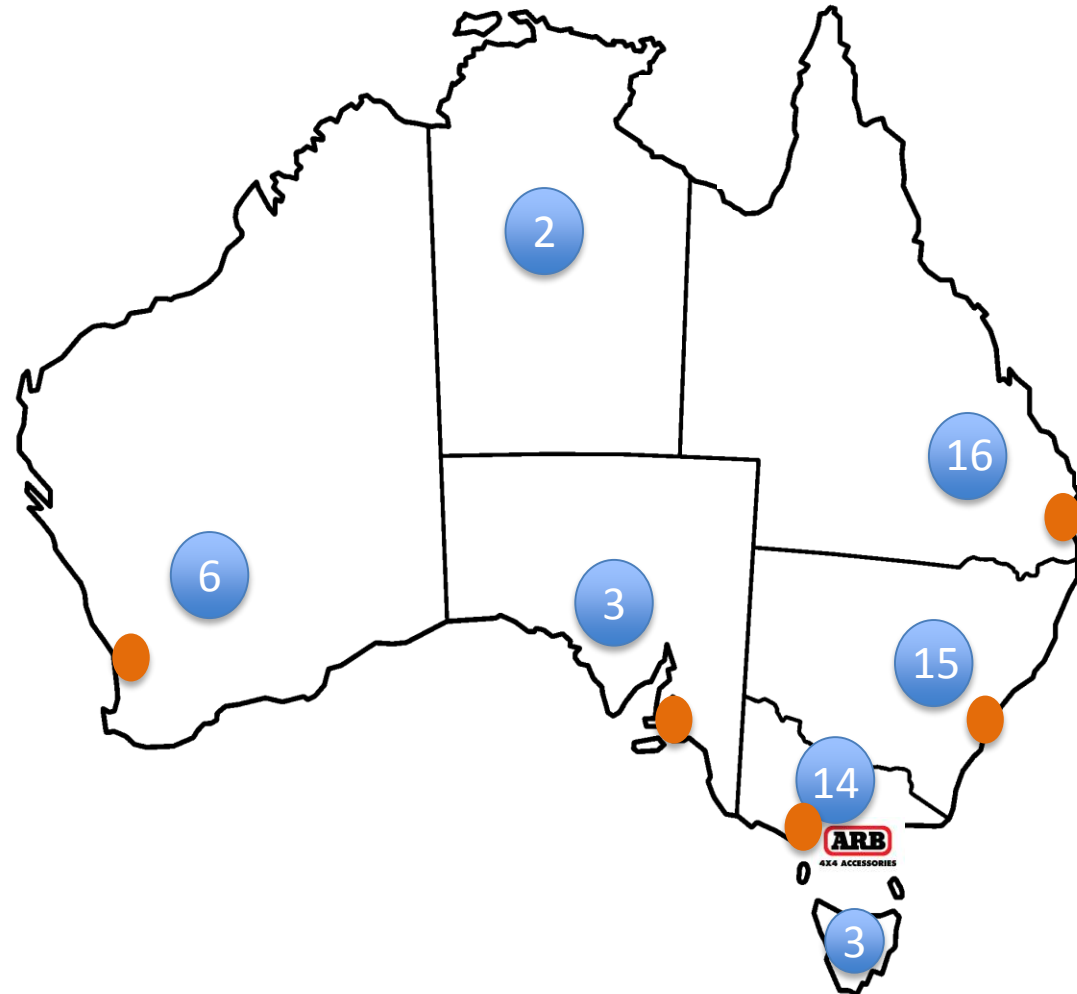
- ARB's Australian Aftermarket sales grew by 5.8% for the nine months ended March 2017, representing 66.3% of total Group sales, broadly consistent with last year.
- ARB has established sales offices and warehouses in all states of Australia to efficiently service customers in a timely manner.
- State sales offices distribute to ARB stores, independent 4WD specialists and new vehicle dealers throughout each state.
- Sales to Fleet customers are another very important ARB sales channel. We have the capacity to look after large fleets around Australia.
- ARB now has 59 stores across Australia, an increase of six stores compared with this time last year.

6a. Australian Aftermarket



Australia Wide

- 5 ARB State Distribution Centres
- 25 ARB company owned stores
- 34 ARB independently owned stores
- Over 100 stockists across Australia
- New vehicle dealers across Australia
- Fleet networks
- Kingsley (Sydney)
- GoActive (Sydney)
(distributor of Thule products)
- SmartBar (Adelaide)



6a. Australian Aftermarket



- Aftermarket sales growth of 5.8% was driven by above average growth in Victoria, New South Wales and South Australia. Sales were marginally up in Queensland and Tasmania whilst sales in Western Australia and the Northern Territory were down.
- There are signs that the slowdown in the mining states of Queensland and Western Australia may have started to stabilise.
- Sales in the north of Australia, specifically in Cairns and Darwin, have been impacted by an unusually wet “wet season”.
- Continued growth and increasing complexity in fitting automotive after market accessories have more recently placed greater strain on the Company’s fitting capacity resources.
- The Company continues to develop its distribution network with a view to greater representation in areas where the Company is currently under-represented.

6a. Australian Aftermarket



- The Company expects to open another 3-4 stores before the end of this calendar year.
- ARB continues to implement strong marketing initiatives and maintains an active social media presence.
- ARB's recent 'Just Gotta Ask' campaign successfully directed customers to *'ask the dealer to deck out the vehicle with ARB accessories before taking delivery'*.



6a. Australian Aftermarket

'Just Gotta Ask' - tv advert



'Just Gotta Ask' YouTube tv advertisement located at:

<https://www.youtube.com/watch?v=5lCgKTjB0-Y>



6a. Australian Aftermarket



ARB is embarking on a new standardised store presentation format, progressively rolling out across its Retail network.

The new format is designed to enhance the customer experience and has been well received by customers and independent store owners.



Internal



External

6b.

EXPORT

Sales



- Total Exports grew by 10.8% for the nine months ended March 2017. Export sales represent 26.8% of total Group sales, up from 25.7% last year.
- Sales growth was achieved by all export operations, ie. across the USA, Europe, Thailand, the Middle East and from Australia.
- Export sales growth was higher in international currencies given the AUD conversion was down ~3-6% compared with the equivalent period last year.
- Many long term export customers historically serviced out of Australia are now buying from Australia and international offices.
- ARB products are sold by independent distributors in over 80 countries across the world.
- The 4WD market is growing in many parts of the world and represents strong growth potential for ARB.

6b.

EXPORT

Sales



- The US operations continue to generate steady growth and are well serviced by a growing sales team and increased warehousing capacity in both Seattle, WA and Jacksonville, FL.
Improving economic conditions in the US are assisting performance albeit management remain alert to the potential for volatility.
- ARB Europe continues to perform steadily with ongoing sales growth and further opportunities identified across the region.
- ARB Thailand is strategically placed to service South East Asia. A new general manager and additional sales and marketing resources have been employed to drive the region.
- ARB established a sales office and warehouse in a Dubai free zone in June 2016 to service the Middle East. ARB Middle East has been well received by customers in the region with local product support available and stock on hand locally.

6b.

EXPORT

Sales



- Export markets continue to be a major focus for ARB with increased investment in infrastructure and more focused marketing.
- Key focuses include:
 - A focus on underperforming markets with potential
 - Growing and training international sales teams and distributors
 - Localised development support for customers and accounts with growth potential
 - Increasing ARB's international marketing footprint
 - Investment in working capital and warehousing & distribution capability
 - Addition of local engineering resources to increase the product range and speed to market

6c. Original Equipment Sales



- ARB actively works with the Original Equipment Manufacturers (OEM's) and has developed strong working relationships.
- Sales to OEM's have contracted -5.7% during the current financial year due to the loss of some OEM contracts during previous years taking full toll in the current financial year. *Despite a contraction in the current year, sales to OEM's this financial year are 8.7% higher than the same period 2 years ago.*
- ARB has won new business with OEM's that should contribute to sales from mid 2017 and throughout 2018. Products related to this new business are currently under development.
- The current order bank for OEM sales is very strong leading to anticipated growth into the new financial year.
- New vehicle releases will continue to provide opportunities for ARB.
- ARB continues to target OEM business opportunities overseas.

7. Product Development



- Product development is an essential and key element in maintaining the Company's long term competitive advantage and sales growth.
- ARB's R&D department employs a team of 40+ engineers located at the Kilsyth head office. This group is supported by a team of 20 production engineers working at the Australian and Thailand manufacturing facilities.
- The Company spent \$6.8m on R&D during FY2016, a 21% increase on FY2015.
- R&D expenditure represented 1.9% of total sales revenue.
- The R&D team has successfully kept pace with the significant number of new releases over the last 18 months including Toyota Hilux, Nissan Navara, Mitsubishi Triton and the updated Ford Ranger and the Land Cruiser 200 series & 70 series.
- The Company is also focusing on a number of long term development projects.

7. Product Development



Successful new product releases include:

- The Summit range, incorporating Bull Bars, Rear Bars and Side Rails
- The Intensity Light range was engineered here in Australia
- The plastic polymer Frontier long range fuel tanks are manufactured at our SmartBar facility in Adelaide, SA.
Very well received by the market



7. Product Development



- The Ascent canopy range has been released for most models



- The high performance BP51 shock absorber continues to expand across more makes and models



7. Product Development



- The new flagship 'Elements' fridge freezer is constructed of stainless steel and offers a fully weatherproof exterior.



8. Production



- Production remains at near full capacity in both the Australian and Thai production plants. Production at these levels is expected to continue throughout 2017.
- Production was hampered in Thailand during November and December as the company completed its negotiations around the annual staff bonus. This impacted both sales and profits in Q2 and into Q3 of the current financial year. It has also placed some pressure on both the Australian and Thai manufacturing sites to restore optimal inventory levels.
- The company continues to invest in its manufacturing equipment to facilitate growth, improve efficiencies and ensure the highest quality product possible.

9. Financial Position



- ARB continues to maintain a strong balance sheet with no debt.
- Off balance sheet debt is limited to rental operating leases for a number of the Company's retail network sites.
- Inventory of \$88.2m at December 2016 was impacted by the manufacturing slow down at the Thai factory during December. This was an increase of only 1.4% from 30th June 2016 compared with sales growth of 6.2% in the period.
- ARB continues to invest in property, plant and equipment for maintenance and to facilitate ongoing growth. Maintenance capex averages \$9m per annum.
- The company is currently constructing a 16,000 m² warehouse in Keysborough, Victoria. The warehouse is expected to be financed through free cash flow.

10. Growth Strategy



Product Development

- Continue to invest in the development of world leading new products

Store Network

- Further expanding the Company's store network across Australia
- 6 new stores since last May
- Upgrading the existing store presentation format (internal & external)

Acquisitions

- Selectively acquiring suitable new products or businesses
- Long range Frontier polymer tanks a recent example

Export Network

- Broadening distribution arrangements in export markets
- Expansion of ARB Middle East
- Expand Thai manufacturing & warehousing to facilitate growth
- Concentrating ARB's sales efforts in areas of the world where recreation, mining, aid & relief and agriculture are creating high demand for 4WD vehicles

11. Outlook



- ARB expects to establish another 3-4 new ARB stores in Australia in 2017.
- The current sales order book is strong both domestically & internationally.
- ARB anticipates a return to growth in sales to OEM's as new products come to market, already contracted to ARB.
- The new warehouse, currently under construction in Keysborough, Victoria, will open later this year facilitating ongoing growth and the consolidation of two leased manufacturing sites back into the main manufacturing site in Kilsyth, Victoria.
- The Company has also invested for growth in Rayong, Thailand with land already acquired and plans to build a warehouse operating in a free-trade zone.
- The Board believes that the company is well positioned to continue its growth but is cautious of the current economic environment and severe instability in some parts of the world.

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