



**ARB CORPORATION LTD**

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**ASX Announcement**

**LETTER TO SHAREHOLDERS**

Please find attached a letter to Shareholders from the Chairman. The contents of the letter were lodged with the Australian Securities Exchange on 18 February 2020 in the form of the Chairman's Statement.

Authorised by:  
Damon Page  
Company Secretary

5 March 2020

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Dear Shareholder,

The Directors of ARB Corporation Limited (“**ARB**” or the “**Company**”) report that the Company achieved a profit after tax of \$25.3 million for the half year ended 31 December 2019. This represents a reduction of 7.4% compared with the prior corresponding period. As previously indicated and explained below, the result reflects the significant strengthening of the Thai baht which increased the Company’s costs on a range of products manufactured in ARB’s Thai factories.

Pleasingly, sales for the half year were \$233 million, an increase of 7.3% over the prior corresponding period.

The half year results are summarised below:

Six months ended	31 Dec 19 \$'000	31 Dec 18 \$'000	Change
<b>Sales revenue</b>	<b>233,396</b>	<b>217,582</b>	<b>7.3%</b>
Other revenue	743	1,126	
<b>Total revenue</b>	<b>234,139</b>	<b>218,708</b>	
<b>Profit before Tax</b>	<b>34,388</b>	<b>37,521</b>	<b>(8.3%)</b>
Tax expense	(9,095)	(10,204)	
<b>Profit after Tax</b>	<b>25,293</b>	<b>27,317</b>	<b>(7.4%)</b>
<b>EPS - cents</b>	<b>31.71</b>	<b>34.40</b>	
<b>Interim Dividend (cps)</b>	<b>18.5</b>	<b>18.5</b>	<b>-</b>
Franking	100%	100%	

The Board has declared an interim fully franked dividend of 18.5 cents per share, in line with last year. The interim dividend will be paid on 17 April 2020 and the Record Date will be 3 April 2020. The ARB Dividend Reinvestment Plan and Bonus Share Plan (the “**Plans**”) will be in operation for the interim dividend to assist with the funding of ARB’s ongoing expansion programme.

Information about the Plans can be found on the Company’s website at <http://www.arb.com.au/about/investor-relations>. Investors wishing to make or change an election to participate in the Plans can do so online via the Computershare Investor Centre website at [www.computershare.com.au/easyupdate/arb](http://www.computershare.com.au/easyupdate/arb) or by phoning Computershare on 1300 850 505.

## HIGHLIGHTS OF THE HALF YEAR TO 31 DECEMBER 2019

### Sales

Sales for the period grew by a respectable 7.3% over the previous corresponding period.

Sales category performance for the period is summarised as follows:

Customer Category	Percentage of Sales		Sales Growth
	6 months to Dec 2019	6 months to Dec 2018	
Australian Aftermarket	62.0%	64.7%	2.8%
Exports	30.9%	27.2%	21.9%
Original Equipment	7.1%	8.1%	(6.1%)
	100.0%	100.0%	7.3%

Sales to the Australian aftermarket grew by 2.8% in challenging circumstances with new motor vehicle sales in Australia recently posting their 22nd consecutive month of declines. Sales of new vehicles in ARB's target market, including medium to large SUVs and four-wheel drive utilities, have remained relatively flat over the period. Nonetheless, sales growth was achieved in Queensland, South Australia, Tasmania and Western Australia, whilst sales in New South Wales and Victoria were only marginally behind the corresponding period last year.

Strong export sales growth of 21.9% was achieved. Export sales and distribution operations in Australia, the USA, the Czech Republic, the UAE, Thailand and New Zealand all contributed to this growth. Export sales now represent 30.9% of the Group's sales, up from 27.2% in the corresponding period last year.

Sales to original equipment manufacturers declined by 6.1% over the period, cycling off strong growth of 21.5% in the corresponding period last year. Original equipment products are exclusively sold on new vehicles and therefore are directly impacted by the slow down in new vehicle sales in Australia. ARB expects modest improvements in original equipment sales in the second half of the financial year as a number of new contracts begin.

As announced on 1 November 2019, Ford Motor Company and ARB continue to work closely on current and new model product and distribution opportunities. The winch-ready bumper for the North American Ranger is progressing through its complex product validation. Both Ford and ARB are working closely to get the product to market as early as possible.

### Distribution

In the Australian aftermarket, the Company distributes through its market leading ARB store network, to retail customers, to ARB stockists, to new vehicle dealers and to various fleet operators. Currently, there are 66 ARB stores in Australia, of which 27 are Company owned. This compares with 65 stores at this time last year. The Company expects four additional ARB stores to open during 2020.

During the period, the Company acquired two ARB stores from an independent owner in Rockhampton and Bundaberg, Queensland. At the time of transition, ARB re-located the Rockhampton store to a new site with the enhanced flagship format. The Company is very pleased with the development of the central Queensland sales network facilitated by these two acquisitions.

The new Bunbury, Western Australia store opened in July 2019. An existing store located in Elizabeth, South Australia, was upgraded and the Company expects six existing stores to upgrade to the flagship format during 2020.

The Company also relocated its Western Australian distribution centre to larger premises in December 2019 which completes the upgrading of all state distribution centres.

ARB officially opened its new 20,000 sqm global warehousing facility in Thailand in October 2019. The modern warehouse situated in a free-trade zone has facilitated the consolidation of manufacturing and warehousing functions across the Company's three sites in Thailand. The location is important to ARB's international supply chain and will increase the efficiency of the global distribution network by directly supplying a broader range of products from a more central location at lower cost.

## **Products and Production**

ARB regards product development as fundamental to maintaining the Company's long-term competitive advantage. The Company has increased its investment in and continues to focus on research and development of new products and applications. ARB's engineering resources are working on a number of long-term product development projects, some of which will be released to market during 2020.

Shareholders can learn more about ARB's new product releases via the Company's website at <https://www.arb.com.au/latest/news-and-releases/>.

## **Financial**

Profit after tax was impacted by a weaker Australian dollar, particularly against the Thai baht, which has materially increased the cost of the Company's Thai manufactured product and negatively impacted on the half year result. The Thai baht persisted at its historically strongest level against the Australian dollar across the entire first half of the financial year. A number of steps were initiated throughout the half year to mitigate against this increased cost which will take full effect in the second half. The Board, however, remains cautious given the inherent volatility of the Australian dollar value against foreign currencies.

Net cash provided by operating activities increased \$15.2 million or 72% to \$36.4 million. The increased operating cash flows reflects the slower growth of inventories compared with the corresponding prior period as the Company more optimally manages its working capital requirements.

Consistent with last year, the Company had no net debt at the end of the period.

## **NEW ZEALAND ACQUISITION**

ARB has reached in principle agreement to purchase the assets of Proform Plastics Ltd. Proform is based in Hamilton, New Zealand and provides customers with a complete large plastics service from design, tool making, production and international logistics. With approximately 120 staff, Proform sells to over 60 countries globally and is a tier-one accessory supplier to a number of global automotive OEM customers.

ARB and Proform have enjoyed a long and successful relationship, dating back to 1997 with the introduction of Proform canopy shells into the ARB product offering, which has grown to include distribution of most of Proform's product range.

The acquisition of Proform is not financially material to ARB. However, Proform is strategically important to ARB because it secures the Company's supply of canopy shells and provides a focus and opportunity to increase sales of Proform proprietary products through ARB's Australian and international businesses.

Proform neatly complements ARB's recent acquisition of the Beaut Utes business, also located in Hamilton, New Zealand, and entrenches ARB in the New Zealand market.

## THE FUTURE

The Board is pleased to report that sales growth has been maintained in the first six weeks of the second half of the financial year. However, the economic and currency headwinds experienced by the Company in the first half of the financial year have continued into the second half, making profit growth difficult to achieve in the short term. Although this is likely to result in full year earnings being down by a similar amount to the first half, the Company continues to develop and pursue numerous growth opportunities across its global network where demand for ARB products remains healthy.

In the longer term, ARB remains positive with growth plans in place, both in Australia and in export markets, including new products and geographic expansion.

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 be 'R. Brown', enclosed within a large, hand-drawn oval.

**Roger Brown**  
Chairman

18 February 2020