

MAY

2016
MARKET
UPDATE



4X4 ACCESSORIES





ARB Corporation Limited Company Update

May 2016

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Chairman



ARB – Introduction

- **ARB was established as a private company in 1975 and listed on ASX in 1987.**
- **The Company designs, manufactures and distributes accessories for 4WD and light commercial vehicles.**
- **The Company has remained focused on its core business for the past 41 years to become the world leader in its field.**

www.arb.com.au



ARB – Overview of Operations

- **ARB currently has:**
 - **annual sales of over \$350 million**
 - **approximately 1,450 employees worldwide**
 - **manufacturing plants in Victoria, Australia and Rayong, Thailand**
 - **sales, warehousing and fitting facilities in all Australian State and Territory capitals**
 - **three separate aftermarket operations in Australia, being Kingsley Enterprises, Go Active Outdoors (Thule Roof Rack Systems) and Smart Bar manufacturing and sales.**



ARB – Overview of Operations (cont.)

- two warehouses and sales centres in the USA, one in Seattle, Washington and the second in Jacksonville, Florida**
- warehouses and sales centres in Rayong, Thailand and in Prague, Czech Republic.**
- distributors in over 80 countries worldwide.**



Most Recently Published Results Half Year to 31 December 2015

- **Sales Revenue was up 7.4% to \$174.3 million.**
- **Net Profit After Tax was up 14% to \$23.3 million.**

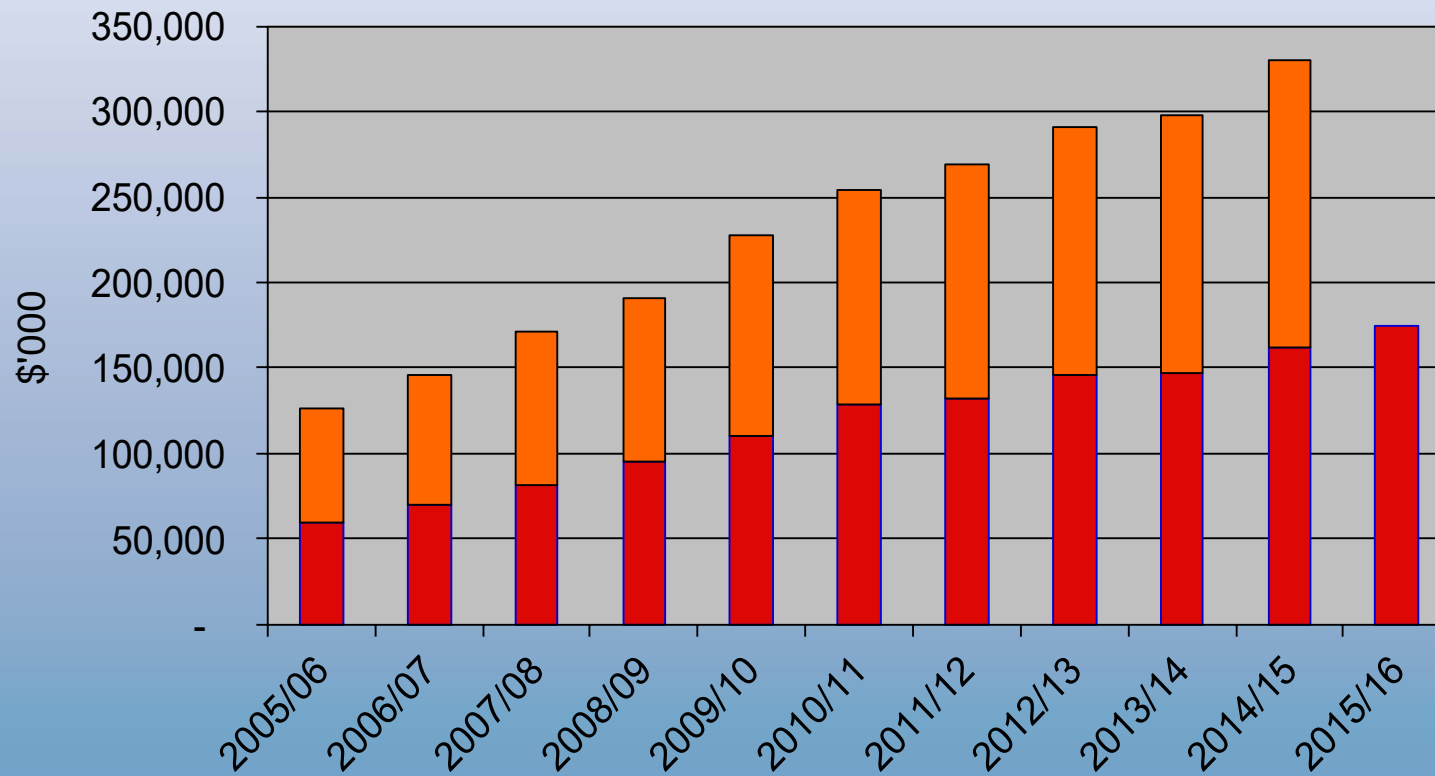
The reported profit for the half year includes an after tax profit of \$1.2 million from the sale of a property by the Company in the USA. Excluding the sale of this property, ARB's underlying profit after tax increased by 8.1% from \$20.5 million to \$22.1 million.



Company Performance Over The Past 10 Years

SALES REVENUE

Annual sales revenue has grown at an average annual compound rate of 11.2% over the past 10 years

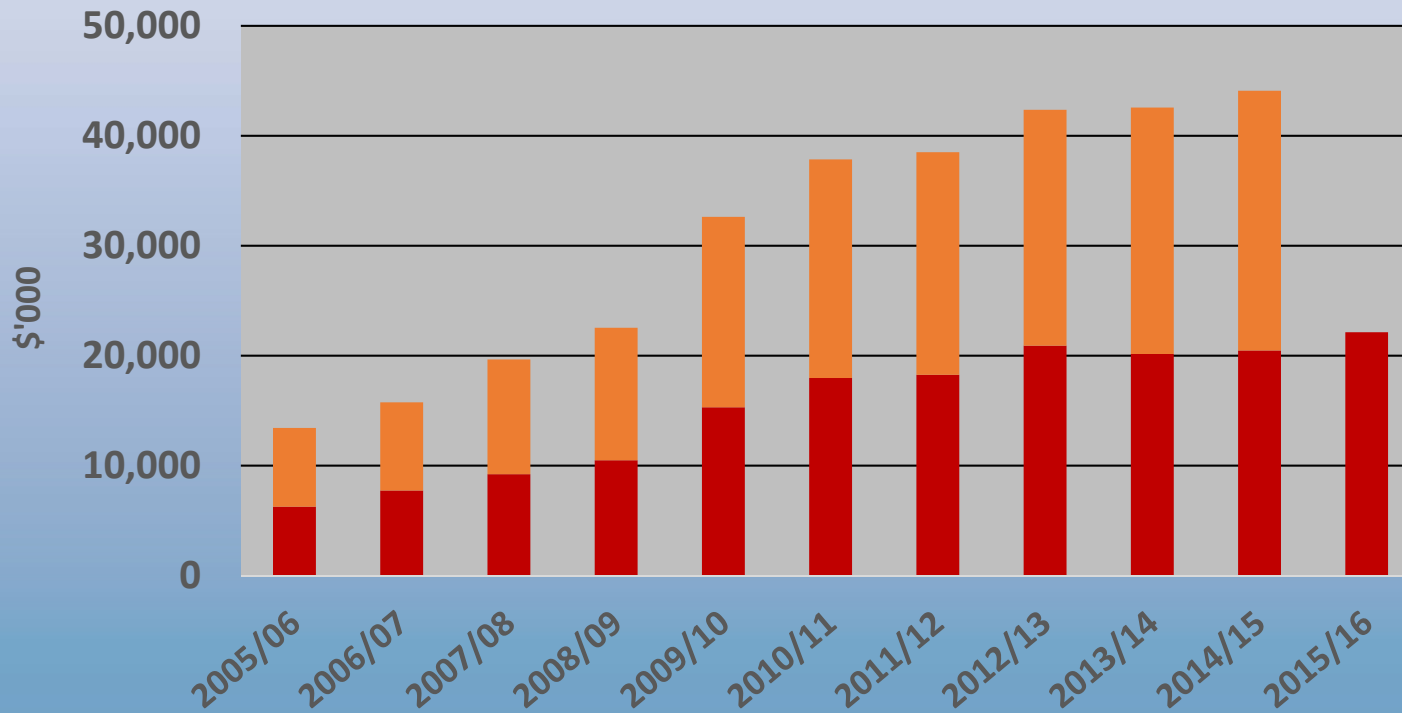




Company Performance Over The Past 10 Years

NET PROFIT AFTER TAX (ex property sales)

Net profit after tax has grown at an average annual compound rate of 14.1% over the past 10 years (excluding profits from property sales in 2005/06 and 2015/16)





Sales Growth for the 9 months ended 31 March 2016 by Market Segment

- **Australian Aftermarket** up 5%
(This includes ARB Aftermarket, Kingsley Enterprises, Go Active Outdoors and Smart Bar division)
 - **Australian Original Equipment (OEM)** up 15%
 - **Exports** up 17%
 - **Off Road Accessories Thailand** up 18% (mainly intercompany)
- Overall Sales Growth** up 8.1%

Growth was achieved in all areas of the business over the period.



ARB Sales by Market Segment

	9 months to March 2016	9 months to March 2015
Australian Aftermarket	66.5%	68.8%
Original Equipment	7.8%	7.3%
Exports	<u>25.7%</u>	<u>23.9%</u>
	100%	100%

Growth in export sales over the past 9 months has been encouraging.



Australian Market New Vehicle Sales

- **Australia's 4WD vehicle market is made up of Sport Utility 4WD's (SUV's) and 4WD Utilities.**
- **ARB's largest group of customers use 4WD utilities, largely dual cabs, powered by turbo diesel engines. These vehicles now offer a good level of comfort, are economical to operate and are excellent towing vehicles.**
- **ARB has developed an extensive range of accessories for these 4WD utilities.**
- **Large and medium SUV's also provide a strong market for ARB's accessories in Australia.**
- **It should be noted that most of the small and luxury SUV's do not provide significant market opportunities for ARB as these vehicles are rarely accessorised.**
- **An analysis of the new vehicle sales segments that are key to ARB in the Australian market is detailed in the following three tables.**



Australian New Vehicle Sales 4WD Categories Most Important to ARB

Calendar Year	All SUV's	4WD Utility
2011	243,928	99,850
2012	305,825	124,536
2013	335,111	137,637
2014	352,347	133,566
2015	408,471	134,003
Average annual growth rate over the last 5 years	14%	8%



Australian New Vehicle Sales 4WD Categories Most Important to ARB

Vehicle sales for the period ended 31 March, 2016 compared with the prior corresponding period:

	All SUV's	4WD Utility
9 months to March 2015	272,129	98,216
9 months to March 2016	317,175	100,340
Growth	+16.5%	+2.2%



Australian New Vehicle Sales 4WD Vs Total Vehicle Sales

Calendar Year	Total SUV & 4WD Utility	Total Vehicles	Total SUV & 4WD Utility % of Total Market
2011	343,778	1,008,442	34.1%
2012	430,361	1,112,032	38.7%
2013	471,148	1,136,227	41.5%
2014	485,913	1,113,220	43.6%
2015	542,474	1,155,408	47.0%

- **Sport Utility 4WD's and 4WD Utilities have become a very important part of all vehicle sales in Australia.**
- **It should be noted that in the 3 months January to March 2016 SUV's and 4WD utilities made up over 50% of new vehicles sales for the first time.**



Australian Aftermarket Distribution

- ARB distributes throughout Australia from state sales offices and warehouses.
- State sales offices distribute to ARB stores, independent 4WD specialists and new vehicle dealers throughout each state.
- There are now 53 ARB branded stores across Australia:
 - 24 company owned stores
 - 29 independent licensed stores.
- This compares with 51 ARB branded stores at this time last year.
- Independent 4WD specialists also provide ARB with a strong customer base throughout Australia.
- ARB's Australian Aftermarket sales for the 9 months to March 2016 were up 5% compared with the prior corresponding period, representing 66.5% of ARB's total sales.

Australian Aftermarket Distribution (cont.)

- **Aftermarket sales growth was well above average in New South Wales, Victoria and Tasmania for the period ended 31 March, 2016. However sales growth was flat in Queensland, South Australia and the Northern Territory. Unfortunately, Western Australia experienced negative sales growth. The impact of the mining slowdown has certainly impacted ARB's aftermarket sales in the "mining states".**
- **In the Australian aftermarket, ARB has:**
 - **further developed the existing store network**
 - **established new ARB stores**
 - **implemented strong marketing initiatives concentrating on social media**
 - **and held successful branch open days and specialised industry shows.**



Australian Aftermarket Distribution (cont.)

- **There are still a number of locations around Australia where the ARB product is under-represented**
 - **accordingly, the Company intends to open additional ARB licensed and company owned stores over the next few years.**
- **The Company is pleased to advise that three new licensed ARB stores are expected to open before the end of this financial year:**
 - **one in New South Wales**
 - **and two in Victoria.**
- **This will bring the total number of ARB stores in Australia to 56.**



Australian Aftermarket Distribution (cont.)

- **Aftermarket sales growth was hampered by the unusually high number of vehicle releases that occurred in the first half of 2015/16. The new vehicles released included the following 4x4 utilities: the Nissan Navara, the Mitsubishi Triton, an updated Ford Ranger and the Toyota Hilux.**
- **Also new sports utility derivatives of the 4x4 utilities produced in Thailand were released. These included the Isuzu MU-X, Holden Colorado 7, Ford Everest, Mitsubishi Pajero Sport and Toyota Fortuner. This second category of new releases opens up a new market for ARB in Australia. Finally, an updated Toyota Land Cruiser 200 Series was released in October 2015.**



Australian Aftermarket Distribution (cont.)

- **The releases of all these vehicles over a short period made it impractical to supply a full range of accessories to our customers in a timely manner.**
- **However, ARB's product development and manufacturing teams are progressing well.**
- **Product developments for these new vehicles will be largely complete by the end of this financial year although some product releases will occur in the first half of 2016/17.**



Original Equipment Sales

- Sales to OEM's (including Toyota, Isuzu, Suzuki, Nissan etc.) in Australia for the 9 months to March 2016 were up by 15% over the previous corresponding period.
- Sales to OEM's represented 7.8% of ARB's total sales for the 9 months.
- Last year at this conference ARB advised that sales to OEM customers would come under pressure from the loss of a number of long held contracts. However, the better than expected performance of the existing contracts has kept OEM sales growing.
- There are still many opportunities for OEM work both in Australia and overseas which ARB will target to maintain growth in this segment of the business. The Company is pleased to advise that ARB has recently won some new business which will contribute to OEM sales in the first half of the 2016/17 financial year and beyond.



Export Sales

- Total exports grew by a strong 17% in the 9 months to March 2016. Export sales now represent 25.7% of total Company sales and a much higher percentage in some product lines.
- ARB products are sold by independent distributors, many using the ARB name, in over 80 countries around the world.
- The Company has previously distinguished between export sales via its USA subsidiary and exports to other regions. However, the business is now more complex, with export sales being made directly from Australia, from Thailand, from the USA and from the Czech Republic. Soon the Company will also establish ARB in the Middle East as a distribution point. Consequently, in future ARB intends to report export sales as a combined figure.



Export Sales (cont.)

- **Since the slowdown caused by the mining contraction in Australia, ARB has increased its focus on achieving growth in export markets by:**
 - **Strengthening the sales teams in the USA, Thailand, Europe and Australia.**
 - **Improving distribution by increasing warehousing capacity in Thailand, in the USA (both in Seattle and Jacksonville) and also in Europe in the Czech Republic.**
 - **The 4WD market that ARB services is strong and growing in many parts of the world and provides good growth prospects.**
 - **The lower value of the Australian dollar against the US dollar in particular for most of the financial year, has contributed to growth.**
 - **Marketing in all areas has become much more focused and is providing exciting results.**



Export Sales (cont.)

- **The US economy is continuing to pick up and ARB is hopeful of achieving continuing growth in this strategic and very large market.**
- **The Company is putting in place specific engineering resources to service the US market in particular, where the vehicle mix is certainly different to that found in much of the rest of the world.**
- **We noted last year that the fall in world oil prices had depressed the economies in many of our important markets. With oil prices recovering slightly we expect to see a pick up in demand from markets like Russia, Kazakhstan and possibly even Venezuela.**
- **Establishment of a sales and distribution warehouse in Prague in the Czech Republic has proved extremely successful. The vastly improved supply lead times to customers has outweighed the slightly higher costs to market.**



Export Sales (cont.)

- **In light of this success the Company has decided to establish a similar operation in a Dubai free zone to service the Middle East region. ARB has a number of large and successful customers in countries in the region but there are many smaller customers who should benefit from the improved service we will be able to offer.**



Product Development

- ARB regards product development as essential and it is a key element in maintaining the Company's long-term competitive advantage.
- Expenditure on R&D was increased over the period and new products are regularly being released to ARB's market worldwide.
- The Company now employs a team of over 40 engineers in the R&D department at the Kilsyth head office in Victoria. This group is supported by a team of 20 production engineers working at the Australian and Thailand manufacturing facilities.



Product Development (cont.)

- The main focus of the R&D team over the past 9 months has been to develop the vast array of products required for the large number of new vehicle releases over the period.
- Summit Bull Bars, Summit Rear Bars and Summit Side Rails and Steps have been developed for many models.
- Ascent and Classic canopies have been released for nearly all the 4WD utility vehicles released. Mitsubishi Triton and VW Amarok Ascent canopies are still in the design and tooling stage.
- Old Man Emu suspension for most of the new models is now available. Further, the range of BP51 high performance shock absorbers is continuing to expand.



Product Development (cont.)

- Since the purchase of the AutoXtras roto-moulded long range plastic fuel tank business in July 2015, the number of models developed has been extensive. This new product range has been very readily accepted into the Australian market place.
- The new “ARB Alloy” range of bars is now under development. These products will be produced in Thailand and the range will be expanded quickly over the next 12 months.
- Unfortunately, some long term product development projects which are very important to the Company’s future have been put on hold over the past 9 months due to lack of resources. These projects will be back in development by the end of this financial year.



Production

- Production output has been hampered by the large number of new products that needed to be introduced into both the Australian and Thai factories. This has had an impact on factory recoveries.
- At present, demand is ahead of supply for many of the Company's manufactured products and production scheduling remains challenging. However the addition of more labour where appropriate and a rise in overtime spend, especially in Thailand, should provide the capacity needed.

Financial Position

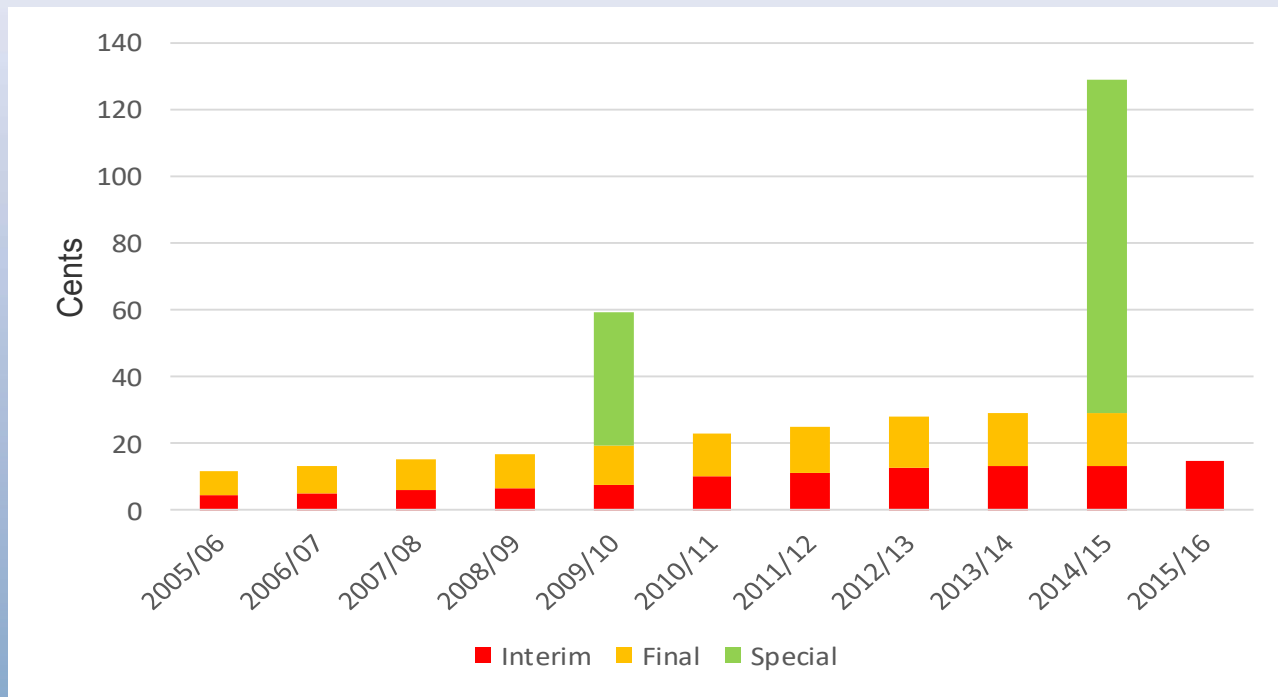
- ARB continues to maintain a strong balance sheet with no net debt.
- Warehouse expansion and the introduction of many new products, as discussed above, resulted in inventory levels rising over the first six months of this year. Over the March 2016 quarter, inventories have been reduced slightly and the Company intends to continue this process over the rest of this financial year.
- New plant and equipment has been acquired to assist with the manufacturing of new and existing products. Capital expenditure planned for the second half of this year is more in line with historical levels.

Financial Position (cont.)

- 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 year. The Company has some natural hedges through its operations in Australia, USA and Thailand and also through its purchasing and selling arrangements.

Capital Management

DIVIDENDS



- ARB maintains an active capital management program.
- The graph above shows dividends per share have grown steadily over the past 10 years with specials paid in the 2010 and 2015 financial years.



Growth Strategy

- **ARB's main growth strategies are summarised as follows:**
 - continuing to invest in the development of world leading new products.
 - further expanding the Company's store network throughout Australia.
 - expanding distribution both in Australia and around the world by strengthening ARB's sales teams, increasing marketing efforts and broadening distribution arrangements in a number of markets in the near future. This includes opening a sales and marketing operation in the Middle East.



Growth Strategy (cont.)

- selectively acquiring new products or businesses if suitable opportunities arise.**
- concentrating ARB's sales efforts in areas of the world where recreation, mining, aid and relief and agriculture are creating high demand for 4WD vehicles.**

Outlook

- ARB is pleased with the sales and profit growth achieved in all market segments over the past 9 months.
- Costs associated with the development and production of products for the large number of new model vehicle releases, and the recent expansion of warehouse capacity, will constrain short term profit growth in the current half year.
- However, ARB is confident that sales growth will continue in the Australian Aftermarket, Export markets and to OEM's in Australia and possibly overseas.
- ARB's present order book is healthy and its long term product pipeline is exciting.
- In summary, the Board remains optimistic about the future growth prospects for the Company despite the current economic environment and the severe instability occurring in some parts of the world.



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