

MAY

2015
MARKET
UPDATE



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YEAR ANNIVERSARY **ARB**

ARB
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ARB Corporation Limited Company Update

May 2015

Presented by Roger Brown
Chairman



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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 40 years to become the world leader in its field.**

[**www.arb.com.au**](http://www.arb.com.au)



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ARB – Overview of Operations

- **ARB currently has:**
 - **annual sales of over \$300 million**
 - **over 1,300 employees worldwide**
 - **manufacturing plants in Victoria, Australia and Rayong, Thailand**
 - **sales, warehousing and fitting facilities in all Australian State capitals**
 - **three separate aftermarket operations in Australia, being Kingsley Enterprises, Thule Roof Rack Systems and Smart Bar manufacturing and sales.**



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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.**
- a global warehouse in Thailand.**
- distributors in over 80 countries worldwide.**



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Most Recently Published Results Half Year to 31 December 2014

- **Sales Revenue was up 10.3% to \$162.3 million.**
- **Net Profit After Tax was up 1.6% to \$20.5 million.**

Sales growth for the half year was very pleasing but profit growth was constrained by factors that will be addressed later in the presentation.

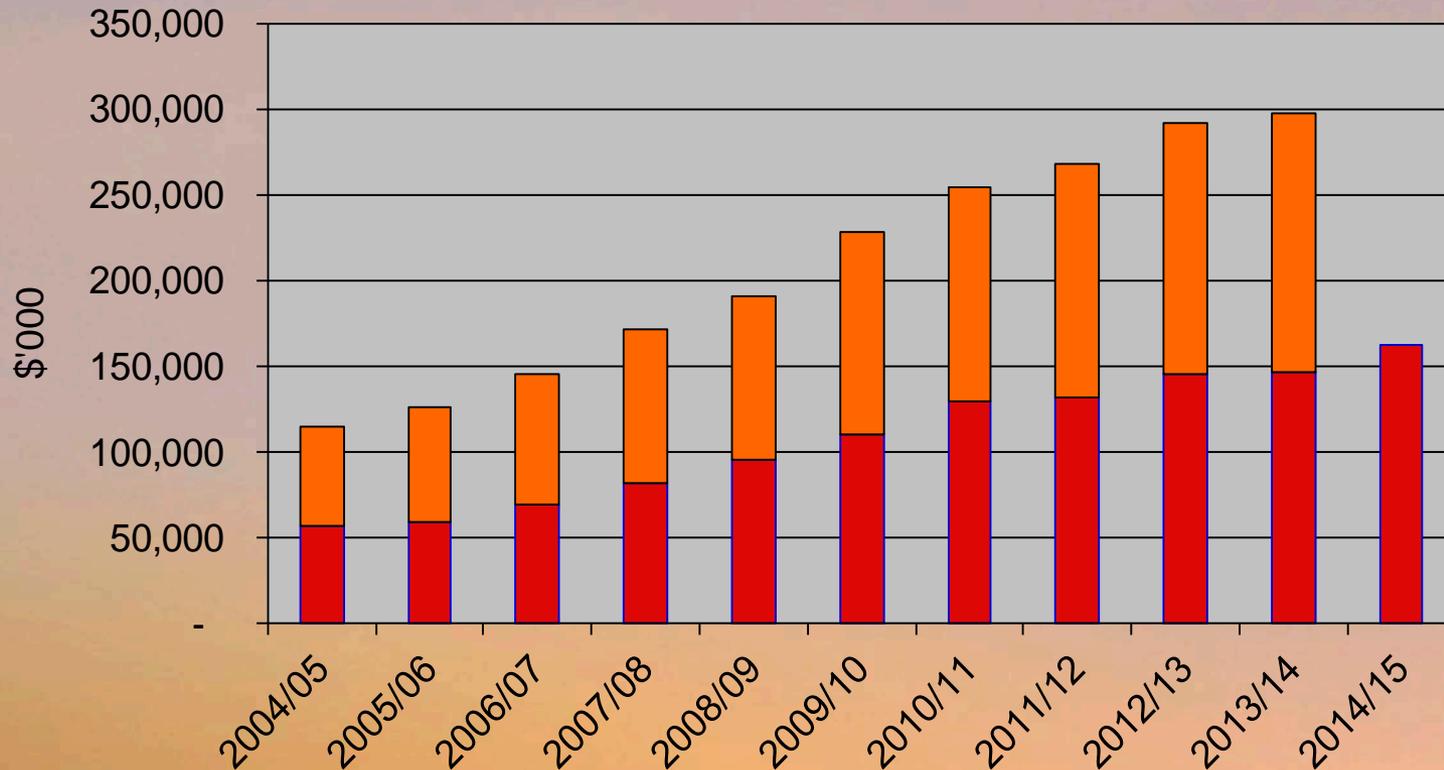


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Company Performance Over The Past 10 Years

SALES REVENUE

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



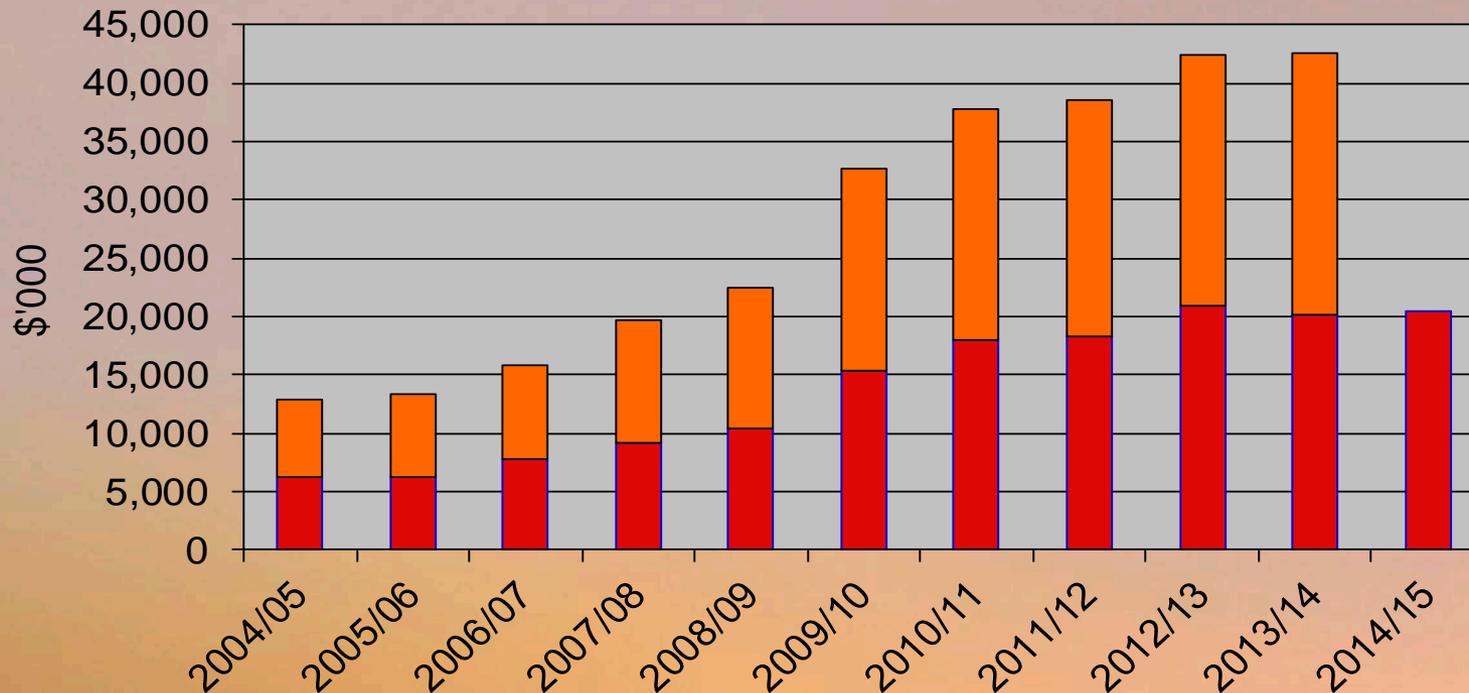


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Company Performance Over The Past 10 Years

NET PROFIT AFTER TAX (ex property sales)

Net profit after tax has grown at an average annual compound rate of 14.2% over the past 10 years (excluding profits from property sales in 2004/05 and 2005/06)





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Sales Growth for the 9 months ended 31 March 2015 by Market Segment

- **Australian Aftermarket** **up 9%**
(This includes the ARB Aftermarket, Kingsley Enterprises, Thule division and Smart Bar division)
 - **Australian Original Equipment (OEM)** **up 21%**
 - **Exports (non USA)** **up 13%**
 - **Exports (via USA subsidiary)** **up 21%**
 - **Off Road Accessories Thailand** **up 13%** (mainly intercompany)
- Overall Sales Growth** **11.6%**



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ARB Sales by Market Segment

	9 months to March 2015	9 months to March 2014
Australian Aftermarket	68.8%	70.5%
Original Equipment	7.3%	6.7%
Exports – non USA	12.5%	12.3%
Exports – USA Sales	<u>11.4%</u>	<u>10.5%</u>
	100%	100%

Only slight changes have occurred in sales by segment since last year due to growth across all market segments.



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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 good 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.**



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Australian New Vehicle Sales 4WD Categories Most Important to ARB

Calendar Year	All SUV's	4WD Utility
2010	235,283	93,956
2011	243,928	99,850
2012	305,825	124,536
2013	335,111	137,637
2014	352,347	133,566
Average annual growth rate over the last 5 years	11%	9%



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Australian New Vehicle Sales 4WD Categories Most Important to ARB

- First 9 months of the current financial year compared with the prior corresponding period:

	All SUV's	4WD Utility
9 months to March 2014	245,485	94,450
9 months to March 2015	272,129	98,216
Growth	+11%	+4%

Australian New Vehicle Sales 4WD Vs Total Vehicle Sales

Calendar Year	Total SUV & 4WD Utility	Total Vehicles	Total SUV & 4WD Utility % of Total Market
2010	329,239	1,035,574	31.8%
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%

- **Sport Utility 4WD's and 4WD Utilities have become a very important part of all vehicle sales in Australia.**



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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 51 ARB branded stores across Australia:**
 - **23 company owned stores**
 - **28 independent licensed stores.**
- **This compares with 48 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 2015 were up 9% compared with the prior corresponding period, representing 68.8% of ARB's total sales.**



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Australian Aftermarket Distribution (cont.)

- **Aftermarket sales growth was above average in New South Wales, Victoria, Tasmania and the Northern Territory. Growth in the other states was subdued, reflecting the impact of the mining slowdown.**
- **In the Australian aftermarket, ARB has:**
 - **further developed the existing store network**
 - **established new ARB stores**
 - **implemented strong marketing initiatives concentrating on social media**
 - **held successful branch open days and shows**
 - **released new and improved products to the market.**



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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 calendar year:**
 - **one in Western Australia.**
 - **two in Victoria.**
- **This will bring the total number of ARB stores in Australia to 54.**
- **The purchase of Smart Bar in the second quarter of the year has also contributed to growth.**



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Australian Aftermarket Distribution (cont.)

- **Store upgrades, both corporate and licensed, are being completed on a regular basis.**
- **Australian warehousing capacity has been substantially increased since the beginning of the financial year as follows:**
 - **a new Company owned warehouse was opened in Adelaide, South Australia, in August 2014;**
 - **a refurbished leased warehouse was opened in Liverpool NSW, in November 2014;**
 - **a large new Company owned warehouse was opened in Brendale, Queensland in March 2015.**

All Australian states now have warehousing capacity to ensure customers will be supplied in a timely manner for the foreseeable future.



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Original Equipment Sales

- Sales to OEM's (including Toyota, Isuzu, Suzuki, Nissan etc.) in Australia for the 9 months to March 2015 were up by 21% over the previous corresponding period.
- Sales to OEM's represented 7.3% of ARB's total sales for the 9 months.
- OEM sales are expected to be satisfactory until the end of this financial year, however in the first quarter of next financial year they will come under pressure as some contracts on new model vehicles have not been renewed with ARB.
- There are still many opportunities for OEM work both in Australia and overseas which ARB will target to restore growth to this segment of the business. We are pleased to advise that ARB has recently won some new business which will contribute to OEM sales in the second half of the 2015/16 financial year.



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Exports

- For reporting purposes, the Company splits its export sales into two categories:
 - sales made by ARB's USA subsidiary, Air Locker Inc, to customers in the USA, Canada and Central and South America, and
 - sales made to all other export customers around the world from the Australian, Thailand and European sales and warehouse operations.
- Total exports represent 23.9% of ARB's sales in the 9 months to March 2015 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.



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Export Sales – non USA

- **In the 9 months to March 2015, non USA exports were up a strong 13% over the previous corresponding period. This represented 12.5% of total sales during this period.**
- **The lower value of the Australian dollar has certainly contributed to the growth during this period.**
- **Since the slowdown caused by mining expenditure contraction in Australia, ARB has increased its focus on achieving growth in export markets by:**
 - **strengthening the sales teams in Australia, Thailand and more recently in Europe**
 - **improving distribution by increasing the warehouse capacity in Thailand and recently establishing the European warehouse.**



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Export Sales – non USA (cont)

- **The 4WD vehicle market that ARB services is strong in many parts of the world and provides good growth prospects.**
- **However over the past 9 months the fall in world oil prices has depressed the economies in some of our best markets. For example, Russia is one of the markets particularly impacted.**



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Export Sales – via USA Subsidiary

- **In the 9 months to March 2015, sales by Air Locker Inc, ARB's USA subsidiary, have increased by 21% over the previous corresponding period. Sales via Air Locker Inc now represent 11.4% of total sales.**
- **The lower value of the Australian dollar as noted previously has contributed to this growth.**
- **In addition, margins in the USA have improved and Air Locker Inc is once again becoming an important profit contributor to the group.**
- **Over the past 9 months ARB has significantly strengthened its sales teams operating out of Seattle and Jacksonville.**
- **Marketing in the USA has also become much more focused and is providing exciting results.**



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Export Sales – via USA Subsidiary

- **The US economy is certainly picking up and ARB is hopeful of achieving continued growth in this strategic and very large market.**
- **The Company is pleased to report that for the first time in its history, ARB now manufactures bull bars for the three big trucks in the USA – Chevrolet, Dodge and Ford.**
- **As expected, sales for these products have started slowly but the opportunities for this range in the future are substantial.**



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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 35 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 Kilsyth and Thailand manufacturing facilities.



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Product Development (cont.)

Important new product releases over the past 9 months include the following:

- The Ascent canopy for utility vehicles. Although released late last financial year development of the range is continuing. There are now 4 models on the market with another 5 to come over the next 12 months. This product has achieved great results in the Australian market place.
- As mentioned earlier, ARB has released a range of modular bull bars to suit the big pickups sold in the USA.
- In October 2014 the Company released a new range of very high performance Old Man Emu shock absorbers. These are known as BP51 shock absorbers. The range was designed and is being manufactured by ARB. Although limited part numbers have been released to date, sales are outstripping manufacturing capacity which is being increased on a monthly basis.



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Product Development (cont.)

- Recently, ARB introduced the new “Summit” bull bar which over time will be released for many vehicles. This range ensures ARB remains at the forefront of bull bar development worldwide.
- This month ARB has also released the Summit Rear Bar for the utility range. This product has been under consideration for many years and has now come to fruition. ARB expects very useful sales for this product.
- All the products are well described at www.arb.com.au
- Many other important new products or models of new products are being released to the market on a monthly basis.



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Production

- Over the first half of this financial year the Company actively managed production levels at both its Australian and Thailand plants to reduce the growth in our world wide inventory levels.
- Demand for the Company's manufactured products is now increasing due to increased sales across many product groups.
- ARB presently has production capacity available to increase supply from both its Australian and Thailand plants.



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Profit Growth

- **As previously reported to ASX, profit growth in the present financial year has been constrained despite strong sales growth. This is due to the following factors:**
 - **The costs associated with bringing on line significant distribution infrastructure**
 - **New DC's in NSW, QLD, SA and for a full year in USA and Europe**
 - **Strengthening of the US Dollar and Thai Baht has increased costs of purchases in both these currencies**
 - **Costs associated with the introduction of a new ERP system.**
 - **Higher interest costs as a result of significant capital investment during the period.**
 - **Higher manufacturing costs associated with the introduction of new products - for example, BP51 and Ascent canopy**



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Profit Growth

- **A higher effective tax rate as a result of tax incentives in Thailand reducing and higher USA sourced profits at a higher tax rate.**

The significant investment by the Company during the period in distribution and infrastructure has provided ARB with the necessary capacity for further sales growth. The associated costs are being addressed to make it more likely that future expected sales growth will result in appropriate profit growth.



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Financial Position

- The Company's financial position remains very strong.
- The Company utilised \$27.0 million of its cash holdings and took on short term debt of \$11.0 million to fund capital expenditure of \$38.0 million during the six months. Major purchases include:
 - the Kilsyth office, warehouse and factory
 - the Queensland Distribution Centre (Brendale)
 - the South Australian Distribution Centre (Regency Park)
 - New Ballarat store freehold
 - Manufacturing equipment in Australia and Thailand.
- The Company remains in a net cash position notwithstanding these major investments.



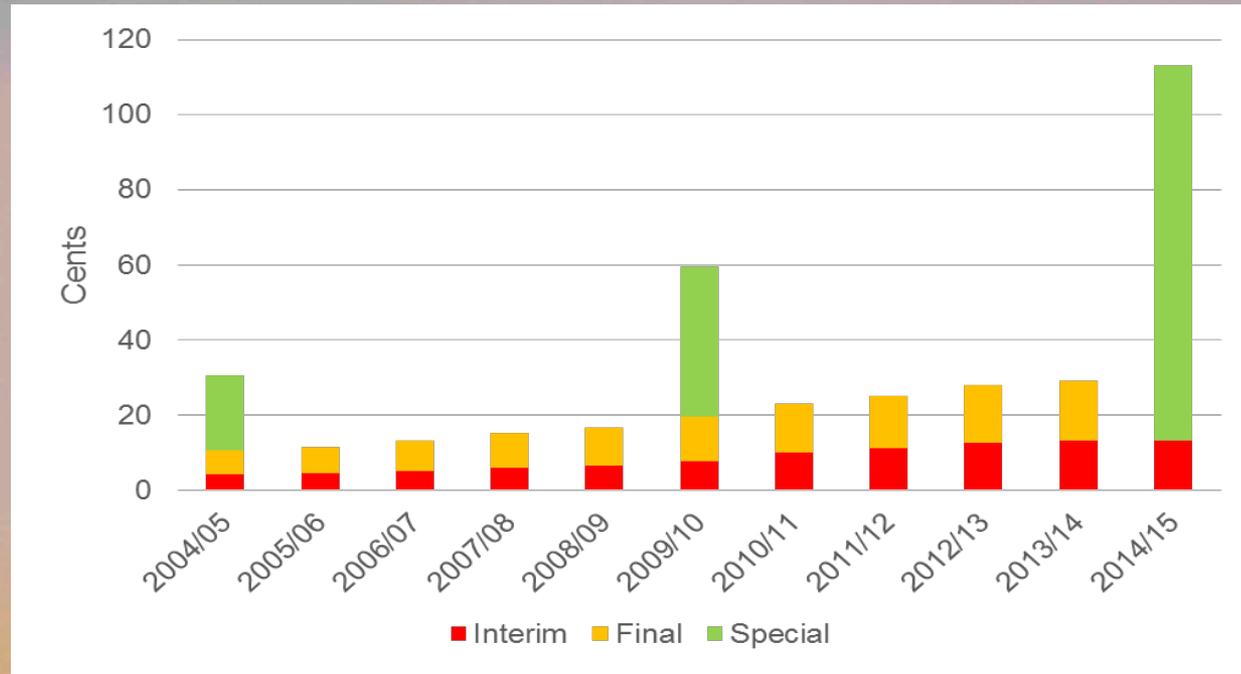
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Financial Position (cont.)

- Capital expenditure planned for the second half of the year is more in line with historical levels.
- Cash flows from operations of \$14.1 million in the December 2014 half year were a reduction of \$2.3 million compared with the previous corresponding period; this was driven by an increase in inventories of \$8.4 million required to facilitate sales growth and the introduction of new products. Inventory has been reduced by \$4.0 million in the 3rd quarter.

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 2005, 2010 and 2015 financial years.
- The 2014/15 final dividend will be determined after year end



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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.**



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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.**



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Outlook

- **ARB is pleased with the sales growth achieved in all market segments over the past 9 months, despite subdued profit growth in this period.**
- **Going forward, sales to OEM's in Australia will decline in the short term but sales growth will be achieved in the much larger segments of the Australian Aftermarket and Exports.**
- **Consequently the Board is optimistic about the future outlook for the Company but remains cautious in the short term given the current economic environment and the severe instability occurring in some parts of the world.**
- **ARB's current order book is healthy and the Board expects the final quarter of this financial year to be solid.**



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