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# MARKET UPDATE

**MAY 2018**

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**Presented by Roger Brown, Chairman**

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# 1. ARB Introduction

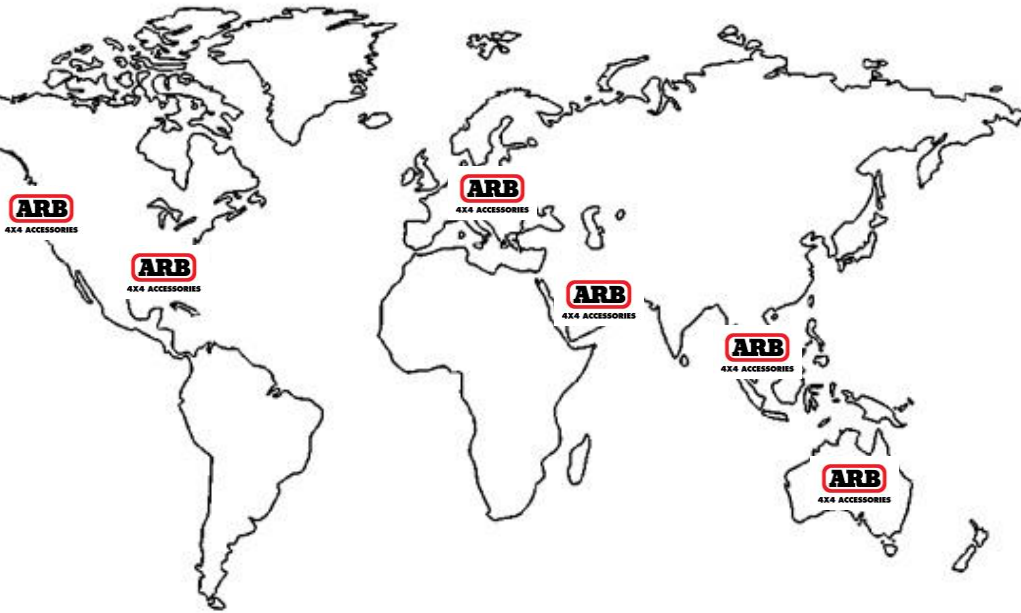
- Established as a private company in 1975 with 2 employees.
- Listed on the Australian Securities Exchange in 1987.
- Designs, manufactures and distributes Australia's largest range of accessories for 4WD and light commercial vehicles.



- ARB is now a major force in this market internationally.
- Focused on our core business for the past 43 years, in a growing market.

# 2. Overview of Operations

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- Annual sales of over \$400m
- 1,600 employees worldwide
- Authorised distributors in all key international markets

- Manufacturing in Australia and Thailand.
- Sales, warehousing & fitting facilities across Australia.
- Sales & warehousing in Thailand (Rayong), USA (Seattle & Jacksonville), Czech Republic (Prague) and UAE (Dubai).

# 3. Financial Highlights

## 1H FY2018

Sales Revenue of

**\$208.1m**

*Up 12.4%*

- Sales growth in all key parts of the business.
- Follows 7.2% sales growth in last financial year.

Profit before Tax of

**\$35.7m**

*Up 10.9%*

- Growth of 10.9% is broadly in line with sales revenue growth.
- Impacted by one off costs relocating warehouses and manufacturing facilities in Australia.

Profit after Tax of

**\$23.4m**

*Up 0.4%*

- Impacted by a provision for additional taxes of \$3.0 million in relation to the period 1 July 2013 to 30 June 2017.
- Growth in Profit after Tax excluding the impact of this one off provision was 13.4%.

# 3. Financial Highlights

## 1H FY2018



Capital Expenditure of

**\$26.6m**

- Significant investment in Property, Plant and Equipment:
  - National warehouse in Keysborough, Victoria; and
  - Various plant items and ARB Store upgrades.
- Further investment in inventory levels.

Net Debt of

**\$nil**

*Maintained*

- No net debt, consistent with June 2017 financial year end.
- Well placed to react quickly to opportunities, such as acquisitions or capital projects.

Interim Dividend of

**17.5 cps**

*Up 9.4%*

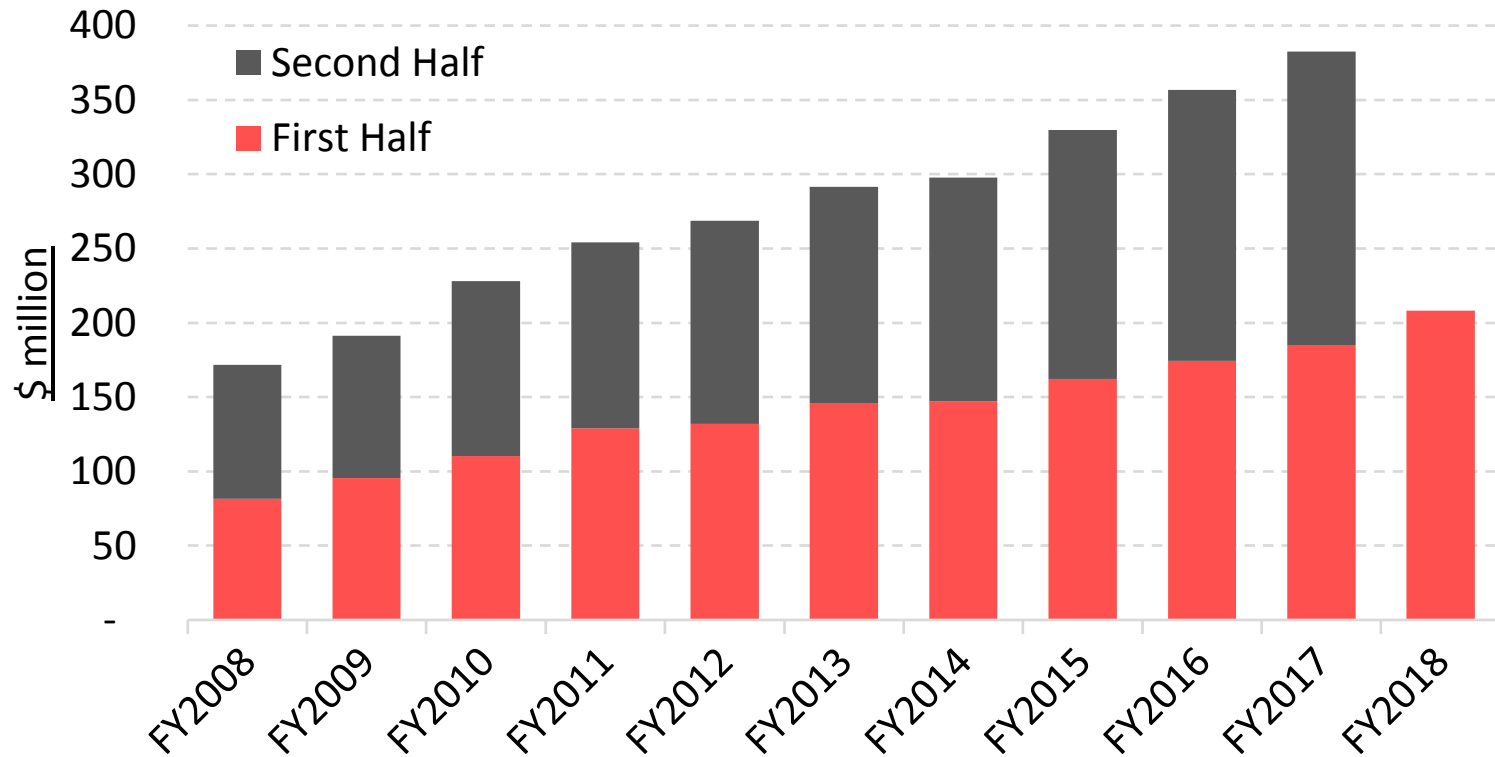
- Dividend fully franked.
- Dividend Reinvestment & Bonus Share Plans recommenced.



# 4. Performance – last 10 years

## Sales Revenue: 10 Year CAGR: 10.1%

Sales revenue grew at an average compound rate of 10.1% over the past 10 years.



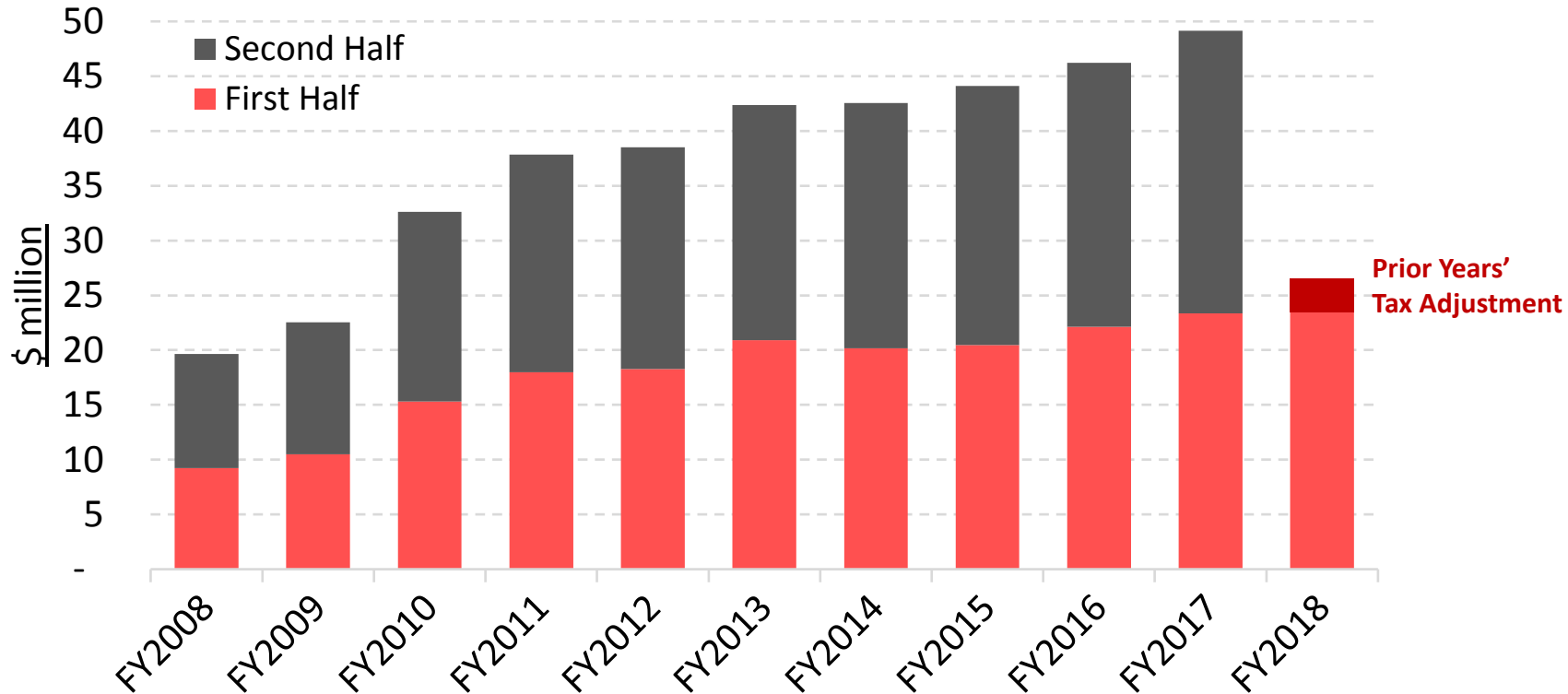
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# 4. Performance – last 10 years

## Profit after Tax: 10 Year CAGR: 12.0%

*(excluding property sale in FY2016)*

Profit after Tax grew at an average compound rate of 12.0% over the past 10 years.

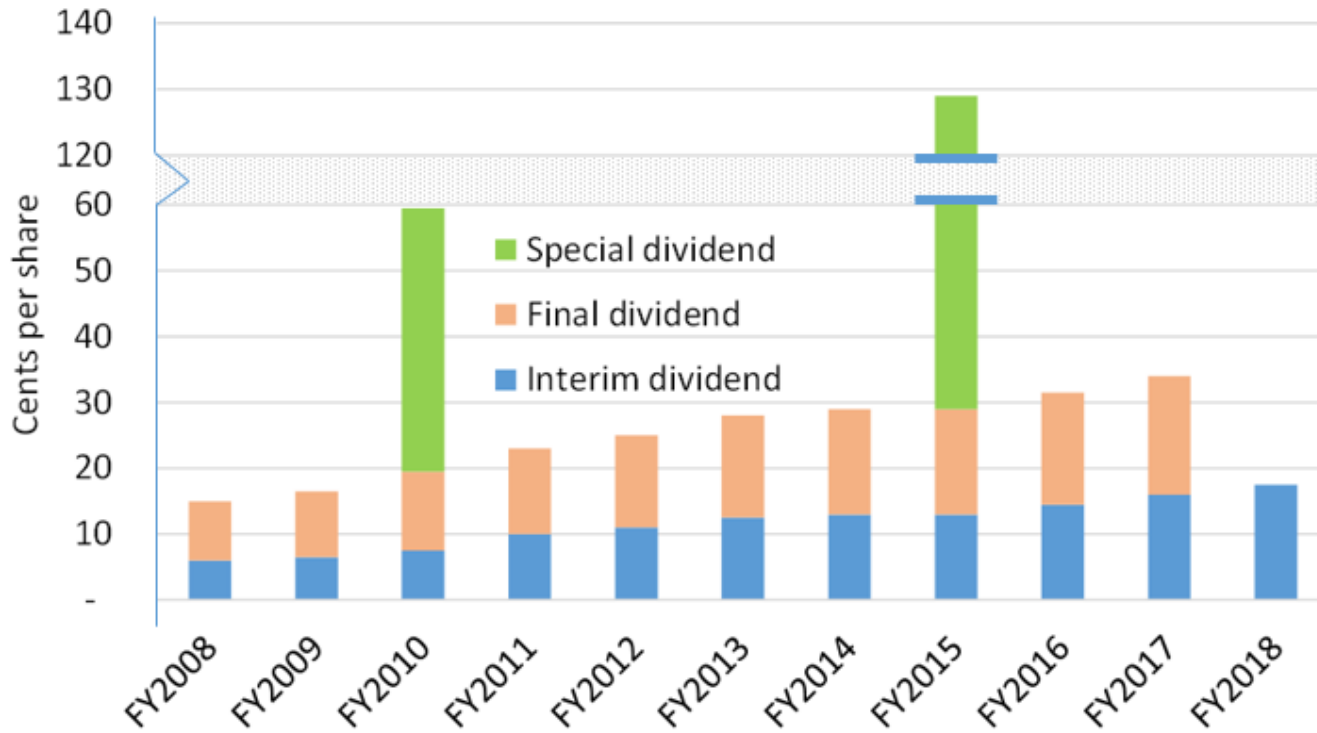




# 4. Performance – last 10 years

## Dividends per Share

- Dividends paid have grown steadily over the last 10 years.
- Special dividends were paid in FY2010 & FY2015.

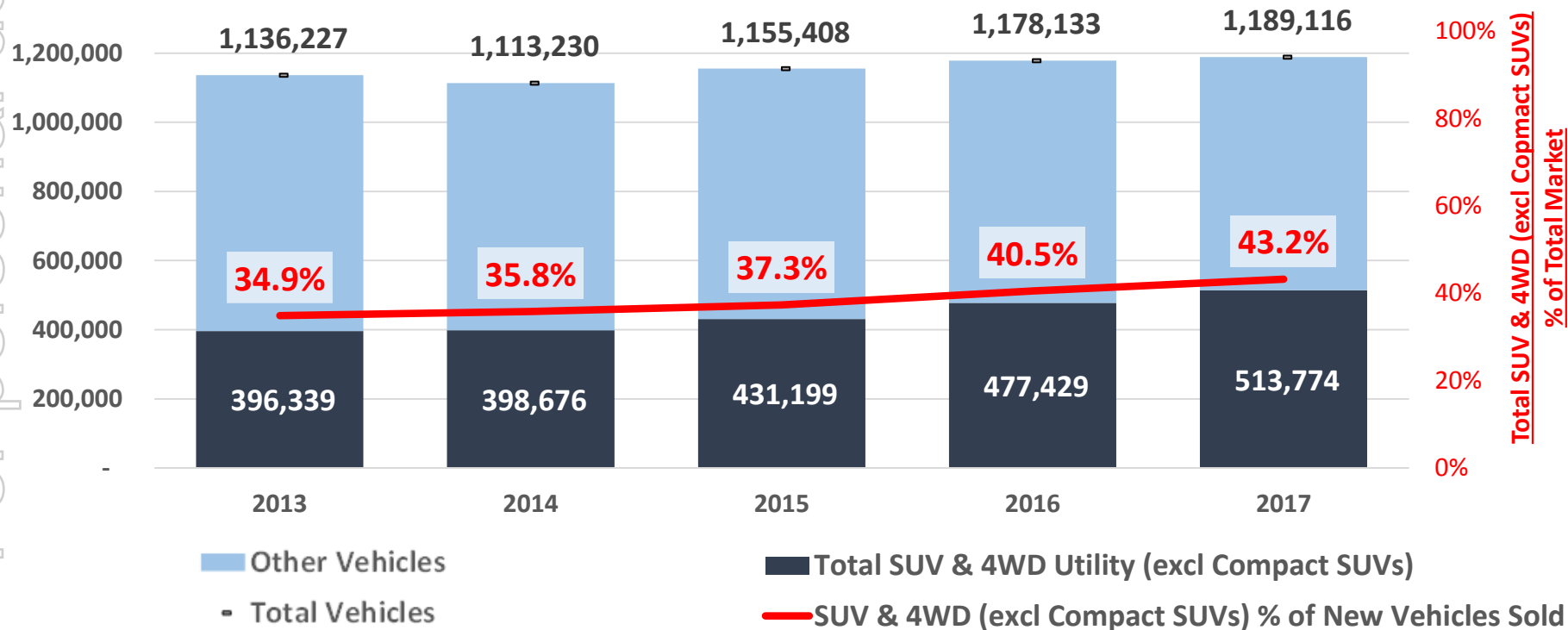


# 5. Australian New Vehicle Sales

4WD Utilities and 4WD Sport Utilities (SUVs) have increased from 34.9% of new vehicles sold in 2013 to **43.2% of new vehicles sold in 2017**.

Nb: Compact SUVs are excluded from the SUV numbers on this slide and the next as they are not typically accessorised; they were included in previous years' presentations.

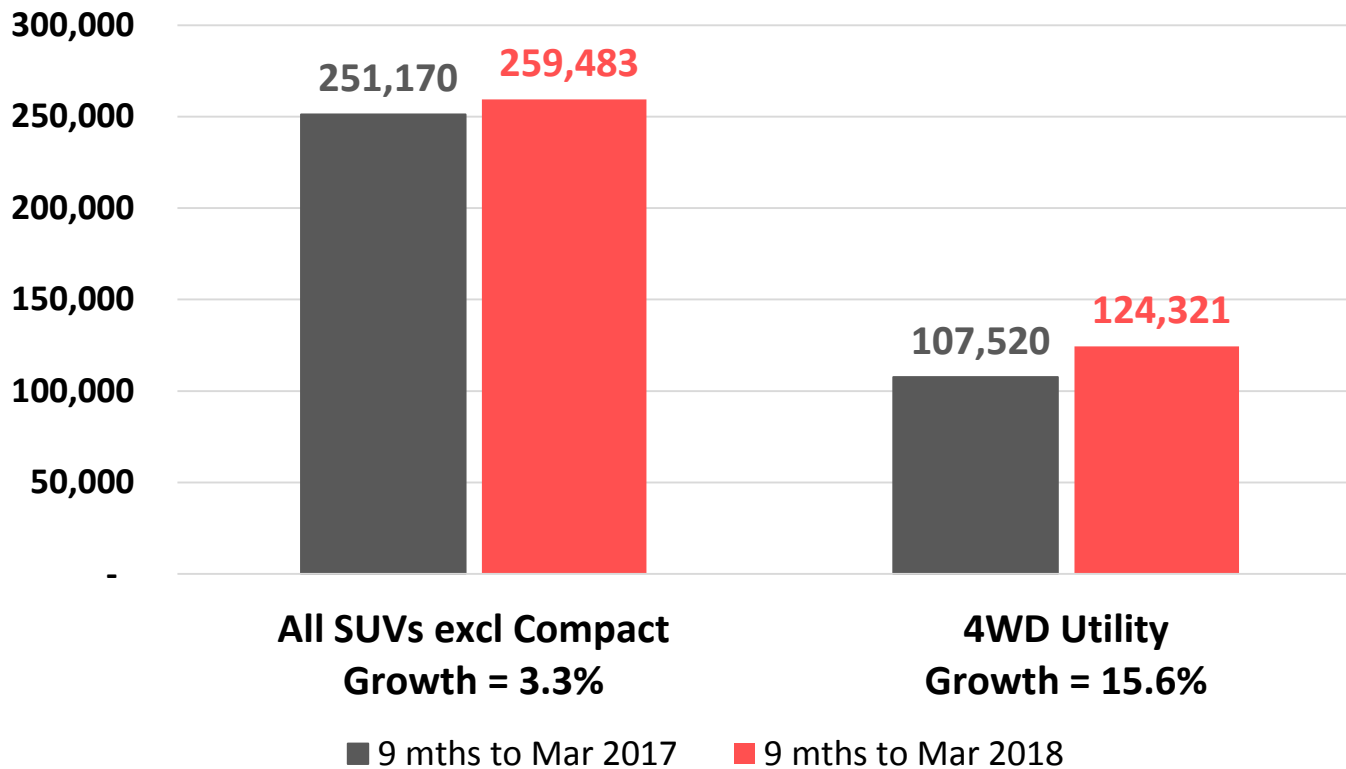
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- The trend of growth continues!

# 5. Australian New Vehicle Sales

## 4WD categories most important to ARB Financial YTD – 9 mths to March 2018



- ARB's largest groups of customers own Medium to Large SUVs and 4WD Utilities (typically diesel dual cabs).

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# 6. ARB Sales by Market Segment



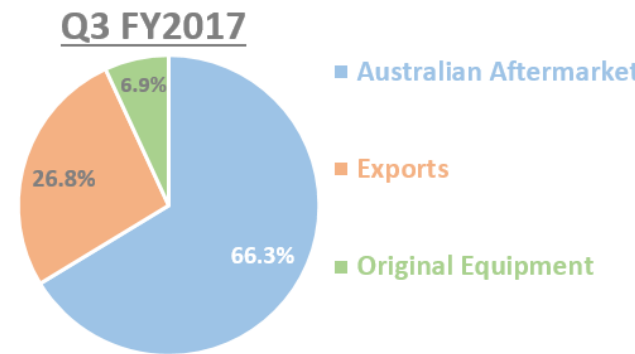
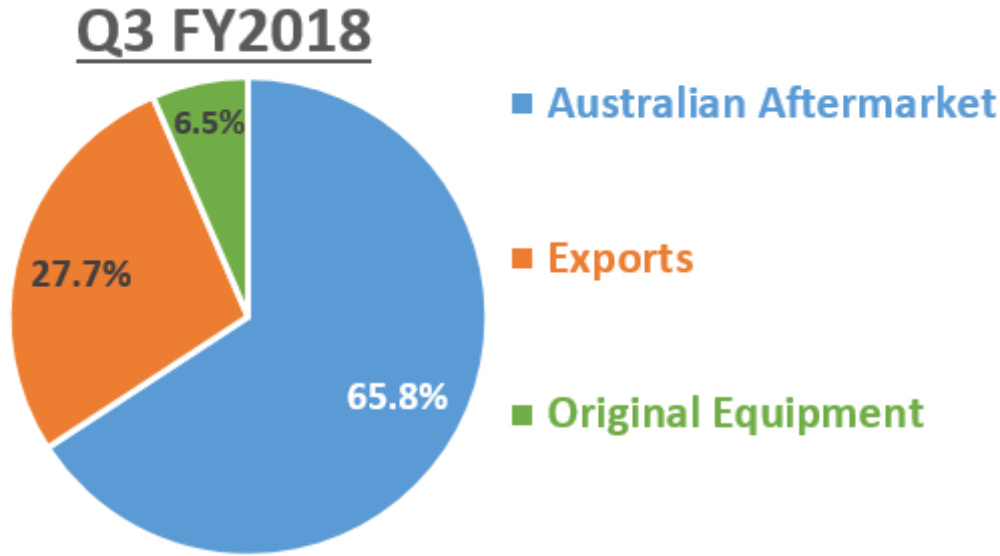
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## Q3 FY2018 YTD

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- Australian Aftermarket** **+11.3%**  
*(includes: ARB Aftermarket, SmartBar, Kingsley Enterprises, GoActive Outdoors)*  
 Variable growth across the country
  - 65.8% of Group sales
- Export** **+16.3%**  
 Strong growth in all regions
  - 27.7% of Group sales
- Original Equipment** **+7.9%**  
 Return to growth compared with this time last year
  - 6.5% of Group sales

**TOTAL SALES GROWTH** **+12.4%**



# 6a. Australian Aftermarket



## Sales growth of 11.3% (65.8% of total Company sales)

- Sales offices and warehouses in all states.
- Distribution through ARB stores, independent 4WD specialists, new vehicle dealers and fleet operators.
- ARB operates 25 Company owned ARB stores across Australia.
- ARB also distributes through 36 independently owned ARB stores across Australia, an increase of two stores compared with this time last year.

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# 6a. Australian Aftermarket



- Sales were up in all states of Australia.
- Growth was above the average in Queensland, New South Wales and Tasmania.
- Growth was near the average in Western Australia and South Australia.
- Growth in Victoria was below the average but cycling at very high growth figures over the past 5 years. Northern Territory was also below the average due to capacity constraints.
- Fleet sales generating strong growth.
- Dealer sales performing well off the back of the “Just Gotta Ask” campaign.
- A number of new stores are planned throughout 2018 and into 2019.

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# 6a. Australian Aftermarket



- GoActive Outdoors, Kingsley Enterprises and SmartBar also provide very useful contributions to ARB's Australian Aftermarket sales.
- The new ARB store format continues to roll out across new and existing ARB Stores.
- Strong marketing initiatives in place.
- Active social media presence.
- General inventory increase providing the ability to grow.
- Fitting capacity resources are constrained at some locations.

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# 6b. Export Sales



## Sales growth of 16.3% (27.7% of total Company sales)

- Sales and distribution operations are established in the USA, Europe, Thailand and the Middle East.
- Sales growth was achieved by all export operations including exports out of Australia.
- ARB sells to distributors all over the world.
- The 4WD market is growing in many parts of the world and represents strong growth potential for ARB.
- Exports remain a key focus for ARB, attracting investment in both infrastructure and marketing.

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# 6b. Export Sales



- The US operations continue to generate steady growth.
  - The team, including senior management and staff, is well settled.
  - Facilities in Seattle, WA and Jacksonville, FL are operating efficiently.
- ARB Europe, now in its fourth year of operation, continues to find opportunities across the European market and is growing steadily.
- ARB Thailand's wholesale operation is extending further throughout Asia with new distributors and investments by established distributors.
- ARB Middle East continues to expand its activities throughout the region engaging new customers whilst assisting existing customers with local support and locally held inventory.

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# 6c. Original Equipment Sales



## Sales growth of 7.9% (6.5% of total Company sales)

- ARB maintains strong working relationships with the Original Equipment Manufacturers (OEM's).
- A number of new OEM contracts for new and existing vehicles and products are commencing throughout the 2018 calendar year.
- Despite lower margins, OEM provides important factory throughput.
- The current order book from OEM customers is strong.
- ARB continues to pursue opportunities around new vehicle releases, both domestically and overseas.

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# 7. Product Development

- Product development is the key to maintaining the Company's long term competitive advantage and sales growth.
- ARB's R&D department includes a team of 40+ development engineers, supported by 20+ production engineers in both Australia and Thailand.
- The Company spent \$7.3m on R&D during FY2017, an 8% increase on FY2016.
- R&D expenditure represented 1.9% of total sales revenue.
- The R&D team is responsible for developing new and unique products for the existing vehicle range and upgrading existing products for models newly released into the market.
- The Company is also focusing on a number of long term development projects.

# 7. Product Development

Recent important new product releases include:

## LINX

- LINX is a unique modern controller that declutters the dashboard and centralises the command of vehicle accessories.
- LINX replaces classic switches and gauges and monitors performance with a smart driver interface.
- Release date: February 2018



# 7. Product Development

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# 7. Product Development

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## Tailgate Assist

- Tailgate Assist safely controls opening and reduces closing effort by over 50%.
- Already developed for a large range of the 4WD utilities on the market.
- Release date: Now





# 7. Product Development

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## SAFELY CONTROLS OPENING



# 7. Product Development

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## Jack

- Jack utilises powerful, lightweight, hydraulic technology to smoothly raise and lower the vehicle safely and effortlessly.
- Release date: Now



# 7. Product Development

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# 8. Production

- Production is at near capacity with continued strong demand.
- Work will commence shortly on the new 20,000 m2 free-trade zoned warehouse in Thailand. This will also create more manufacturing space for the current Thai operations and improve supply to customers around the world.
- Continued investment is planned to facilitate growth and upgrade existing machinery.
- Key production objectives: volume, efficiency and highest quality products.

# 9. Financial Position

- Strong financial position maintained with no net debt at December 2017.
- Free cash flow and existing cash balances funded the \$20m national warehouse in Keysborough, Victoria completed in September 2017.
- Inventory levels increased 20% at December 2017 compared with the same time last year.
- Profit is being impacted by the strengthening THB which is the Company's current key FX exposure.
- The Company is well placed to take advantage of investment opportunities.

# 10. Growth Strategy

There are many expansion opportunities for ARB:

- Product development is key to growth and maintaining industry position.
- Developing the Australian store network in terms of number of stores and presentation of stores.
- Developing distribution throughout the international network.
- Selectively acquiring new products or businesses.
- Investment in equipment to increase efficiencies and production.
- Continuous improvement throughout existing operations.

# 11. Outlook



- ARB expects to establish 7 new ARB stores between now and the end of the next financial year.
- The sales order book is currently strong both domestically and internationally.
- Establishment of the new free-trade zoned global warehouse in Thailand will substantially increase warehousing and production capacity.
- The Board believes 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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