

# ARB Corporation Limited Company Update

May 2013  
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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 38 years to become the world leader in its field.

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## ARB – Overview of Operations

Currently ARB has:

- annual sales approaching \$300 million.
- over 1150 employees worldwide.
- manufacturing plants in Victoria, Australia and Rayong, Thailand.
- sales, warehousing and fitting facilities in all Australian State capitals.
- two separate aftermarket operations in Australia, being Kingsley Enterprises and Thule Roof Rack Systems.
- a warehouse and sales centre in Seattle, USA.
- a warehouse and sales centre in Rayong, Thailand.
- a new global warehouse in Thailand.
- and distributors in over 80 countries worldwide.

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## Most Recently Published Results Half Year to 31 December 2012

- Sales Revenue up 10.3 % to \$145.7 million
- After Tax Profit up 14.5% to \$20.9 million

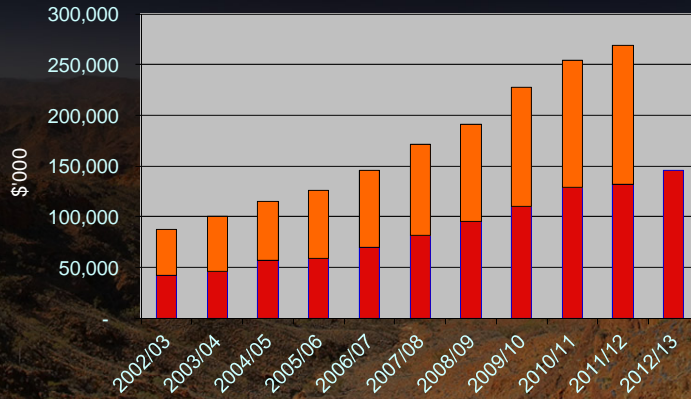
A good result driven by strong growth in the  
Australian Aftermarket

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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 13.2% over the past 10 years

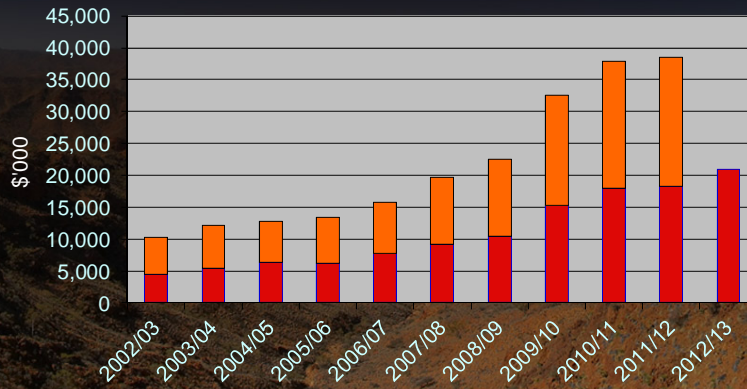


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## Company Performance Over The Past 10 Years

### NET PROFIT AFTER TAX (ex property sales)

Net profit after tax has grown at an average annual compound rate of 15.8% over the past 10 years (excluding profits from property sales in 2004/05 and 2005/06)



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## A Breakdown of the Sales Growth for the 9 months to end of March 2013 by Market Segment

• <b>Australian Aftermarket</b> <small>(This includes the ARB Aftermarket, Kingsley Enterprises and the Thule division)</small>	<b>up 16%</b>
• <b>Australian Original Equipment</b>	<b>down 8%</b>
• <b>Exports (non USA)</b>	<b>down 2%</b>
• <b>Exports (via USA subsidiary)</b>	<b>up 2%</b>
• <b>Off Road Accessories Thailand</b>	<b>up 45%</b> <small>(mainly intercompany)</small>
<b>Overall Sales Growth</b>	<b><u>up 9.6%</u></b>

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## ARB Sales by Market Segment

**9 months to  
March 2013**

<b>Australian Aftermarket</b> <small>(includes Kingsley &amp; Thule)</small>	69.0%
<b>Original Equipment</b>	10.0%
<b>Exports – non USA</b>	11.0%
<b>Exports – USA Sales</b>	10.0%
	<hr/>
	100.0%

The sales mix has changed slightly over the past 12 months due to the continued growth of the Australian Aftermarket.

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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.
- Also large and medium SUV's provide a large 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.
- Sales of these vehicles in the Australian market over the past 5 calendar years have performed as follows:

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## Australian New Vehicle Sales Four Wheel Drive Categories most important to ARB

Calendar Year	All SUV's	4WD Utility
2008	194,459	83,578
2009	188,180	85,813
2010	235,283	93,956
2011	243,928	99,850
2012	305,825	124,536
Average Annual growth rate over the last 5 years	12%	10%

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## Australian New Vehicle Sales Four Wheel Drive Vs Total Vehicle Sales

Calendar Year	Total SUV & 4WD Utility	Total Vehicles	Total SUV & 4WD Utility % of Total Market
2008	278,334	1,012,165	27.5%
2009	273,993	935,620	29.3%
2010	329,239	1,035,574	31.8%
2011	343,778	1,008,442	34.1%
2012	430,361	1,112,032	38.7%

- 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 46 ARB branded stores across Australia:
  - 18 company owned stores and
  - 28 independent licensed stores
- This compares with 43 ARB branded stores at this time last year. Over the past 12 months we have added:
  - ARB Bundaburg (QLD), independent.
  - ARB Alice Springs (NT), company owned and;
  - ARB Wangara (WA), company owned (opened 1<sup>st</sup> April, 2013)
- Independent 4WD specialists also provide ARB with a strong customer base throughout Australia.

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## Australian Aftermarket (cont.)

- ARB's Australian Aftermarket sales growth of 16% in the 9 months to March 2013 was a very strong result.
- The sales growth has been achieved in the following ways:
  - continued development of existing ARB stores.
  - the establishment of new ARB stores.
  - strong marketing initiatives .
  - successful branch open days and shows.
  - the continued release of new and improved products; and,
  - a general improvement in market share at the expense of ARB's competitors.

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## Australian Original Equipment

- Sales to OEM's such as Toyota, Nissan, Isuzu, Suzuki etc in Australia for the 9 months to March 2013 were down by 8% over the previous corresponding period.
- This was a disappointing outcome and resulted from increased competition in this business segment and the slow down in the mining industry in Australia.
- ARB's profit margins on OEM sales are low but the throughput they provide for the Company's factories is very important.
- We have recently strengthened our sales, service and engineering teams in the OEM area to make the most of future opportunities.

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## Exports

- For reporting purposes, ARB splits its export sales into two categories:
  - sales made by our US subsidiary, Air Locker Inc, to customers in the USA, Canada and Central and South America.
  - and sales from head office in Australia to all the other parts of the world and sales made locally in Thailand by ARB Thailand.
- Total exports represent 21% of ARB's 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.

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## Export Sales - from Australia

- In the 9 months to March 2013, exports from Australia were down 2% compared with last year.
- This result was expected due to the continuing strength of the Australian Dollar which has dampened demand for our products in many markets. Over the past 12 months sales to our distributors in Europe, North Africa and Southern Africa have all been under pressure.
- Our customers are performing well in countries where oil is being extracted and mining is strong.

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## Export Sales – by our US Subsidiary

- In the 9 months to March 2013, sales by our US subsidiary Air Locker Inc have increased by 2%.
- The Australian dollar has remained strong over the entire year reducing our competitiveness.
- In November 2012 we appointed a new president of Air Locker Inc who has been charged with the responsibility of strengthening our sales, marketing and distribution efforts in all markets served by our US subsidiary.
- Indications are that the US economy is beginning to pick up and we are hopeful of achieving reasonable growth in this market in the near future.
- New and existing customers in Central and Sth America should also provide us with opportunities for growth.

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## Current Operating Conditions

- **Vehicle Supply**
  - Delivery of new vehicles from Japan and Thailand is now back to normal. No longer an issue.
- **Value of the Australian Dollar**
  - The Australian Dollar has remained high over the past 12 months against the US Dollar and strengthened against the Euro, Pound and the South African Rand. This Australian Dollar strength has helped maintain our margins in Australia, but improved the position of our competitors in Australia who, in the main import all their products. In general even maintaining export volumes in the face of the high dollar has been difficult for the company.

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## Current Operating Conditions

- **Labour Availability**
  - Availability of unskilled labour is not an issue but it is much more difficult to employ skilled trade labour in Australia. Labour availability both skilled and unskilled in Thailand is still satisfactory however costs have increased sharply over the past few years.
- **Global Economic Weakness**
  - Demand in many of our traditionally strong markets has declined in line with economic weakness in these markets. Countries in Europe, North Africa and South Africa are examples of this weakness.

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## Current Operating Conditions

- **Input Costs**
  - The price of our major raw material, steel continues to be stable in Australia and Thailand. However another important raw material to ARB, aluminium is beginning to rise in price. Utility inputs in Australia such as electricity and gas have increased in price rapidly over the past few years.
- **Mining Industry**
  - ARB has benefitted from the strong growth in the mining industry, especially in Australia, over the past 5 years. Recent expenditure cutbacks across the industry have certainly reduced demand for our products from this important customer segment.

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## New Thailand Facility

As previously announced a new 17,500 sq meter facility has been built in Thailand over the past year and completed in December 2012. Our existing plant in Thailand will remain our Thailand head office and our major manufacturing base. The warehouse component of the new facility is up and running and is expected to reduce distribution costs and improve shipping times for customers around the world. The factory component of this facility is intended to provide room to expand ARB's manufacturing capacity over the next few years. New products will begin to be produced there in the first half of the fiscal year 2013/14.

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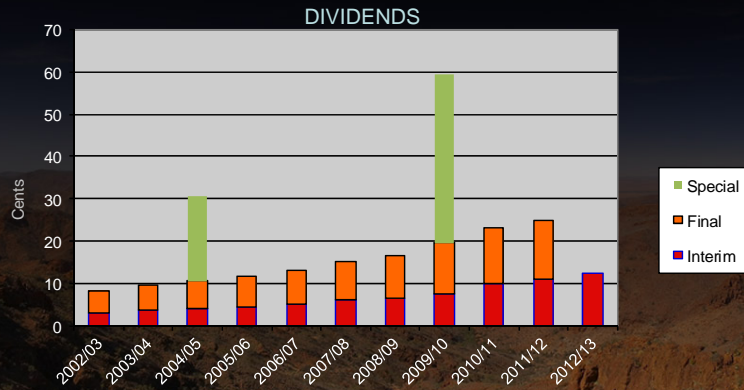
## Balance Sheet Strength

- ARB reported increased cash flow from operations of \$18.2 million for the half year to 31<sup>st</sup> December and a net cash balance of \$32.2 million as at 31<sup>st</sup> December 2012 with no debt.
- Since 31<sup>st</sup> December 2012, ARB is pleased to report that it has continued to generate strong cash flows.

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## Capital Management



- 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 and 2010 financial years.
- ARB paid:
  - a final fully franked dividend of 14.0 cps on 19<sup>th</sup> October 2012.
  - and an interim fully franked dividend of 12.5 cps on 19<sup>th</sup> April 2013.

## Growth Strategy

There are numerous expansion opportunities for ARB in the longer term, ranging from developing and improving existing activities through to implementing new initiatives. The Company's main growth strategies are as follows:

### Australian Distribution

- ARB will continue to strengthen its Australian store network when opportunities arise.

## Growth Strategy (cont.)

- There are still a number of locations around Australia where the ARB product is under-represented. Consequently ARB expects further ARB licensed and company owned stores to be opened over the next few years.
- We have recently appointed a new manager of ARB's operations in New South Wales. He has been charged with reviewing all operations in the state. We expect store upgrades both corporate and licensed to result from this review.
- Although new warehouses were added in NSW, Victoria and Western Australia over the past 4 years, capacity is still limited. Additional warehousing capacity is being sought in Queensland, Western Australia and South Australia at present.

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## Growth Strategy (cont.)

### Exports

- Expanding exports is a very important growth strategy for the company despite the challenge presented by the strong Australian dollar. To achieve growth we are strengthening our management and sales teams in many of our more important markets around the world. Further our R & D team are looking to develop new products specifically for export customers.

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## Growth Strategy (cont.)

### New Products

- New product development has always been at the heart of the Company's growth strategy.
- The Company remains focused on developing world leading new products to supply its large and diverse aftermarket customer base both locally and overseas and also OEM's in Australia.

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## Growth Strategy (cont.)

- Exciting new products are being developed in all of ARB's product categories:
  - Fabricated products
  - Suspension
  - Canopies
  - Mechanical products
  - Fridges
  - General Accessories, and;
  - Touring Products
- Over the past few years there have been a large number of new model 4WD vehicles released around the world. These releases will keep ARB's expanded product development facilities running to capacity for the foreseeable future.

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## Outlook

- Forecasting future activity levels remains difficult in the current environment.
- The Company has achieved sales growth of 9.6% for the 9 months ended 31 March 2013.
- ARB's current order book is satisfactory and despite the mining downturn we expect the final 3 months of this fiscal year to remain solid.
- ARB is continuing to invest in long term growth initiatives, including new products and production and distribution capacity.

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