ARB

4X4 ACCESSORIES

MAY

2014 UPDATE

ARB Corporation Limited
Company Update

May 2014

Presented by Roger Brown

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 39 years to become the world leader in its field.

www.arb.com.au

ARB – Overview of Operations

- **ARB currently has:**
  - **annual sales approaching $300 million**
  - **over 1,200 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.**

ARB – Overview of Operations (cont.)

- two warehouses and sales centres in the USA, one in Seattle, Washington and the second in Jacksonville, Florida
- a warehouse and sales centre in Rayong, Thailand
- a global warehouse in Thailand
- a recently established warehouse and sales centre in the Czech Republic
- distributors in over 80 countries worldwide.

Most Recently Published Results
Half Year to 31 December 2013

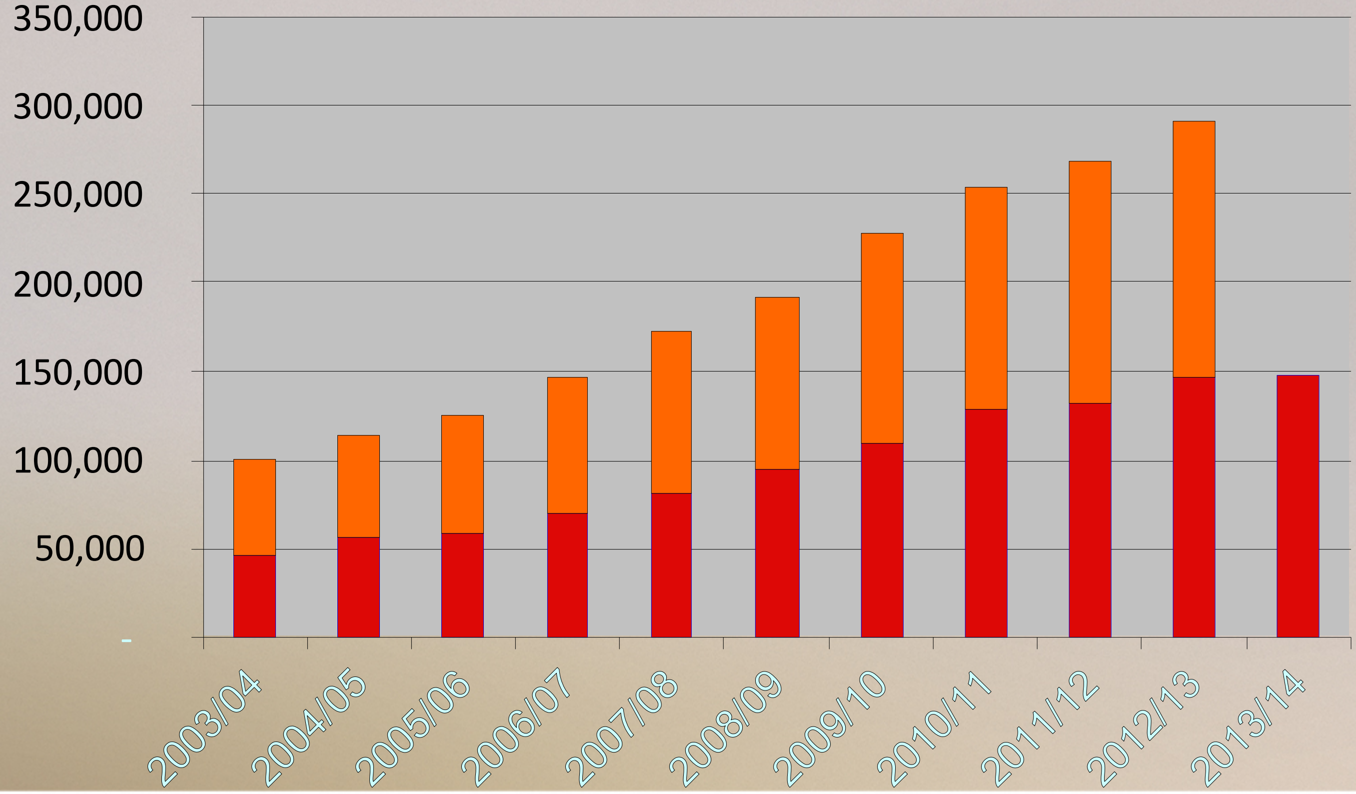
- Sales Revenue was up 1.0 % to $147.1 million.
- Net Profit After Tax was down 3.6% to $20.1 million.

Result in line with guidance and satisfactory given severe downturn in mining related capital purchases.

Company Performance Over The Past 10 Years

SALES REVENUE

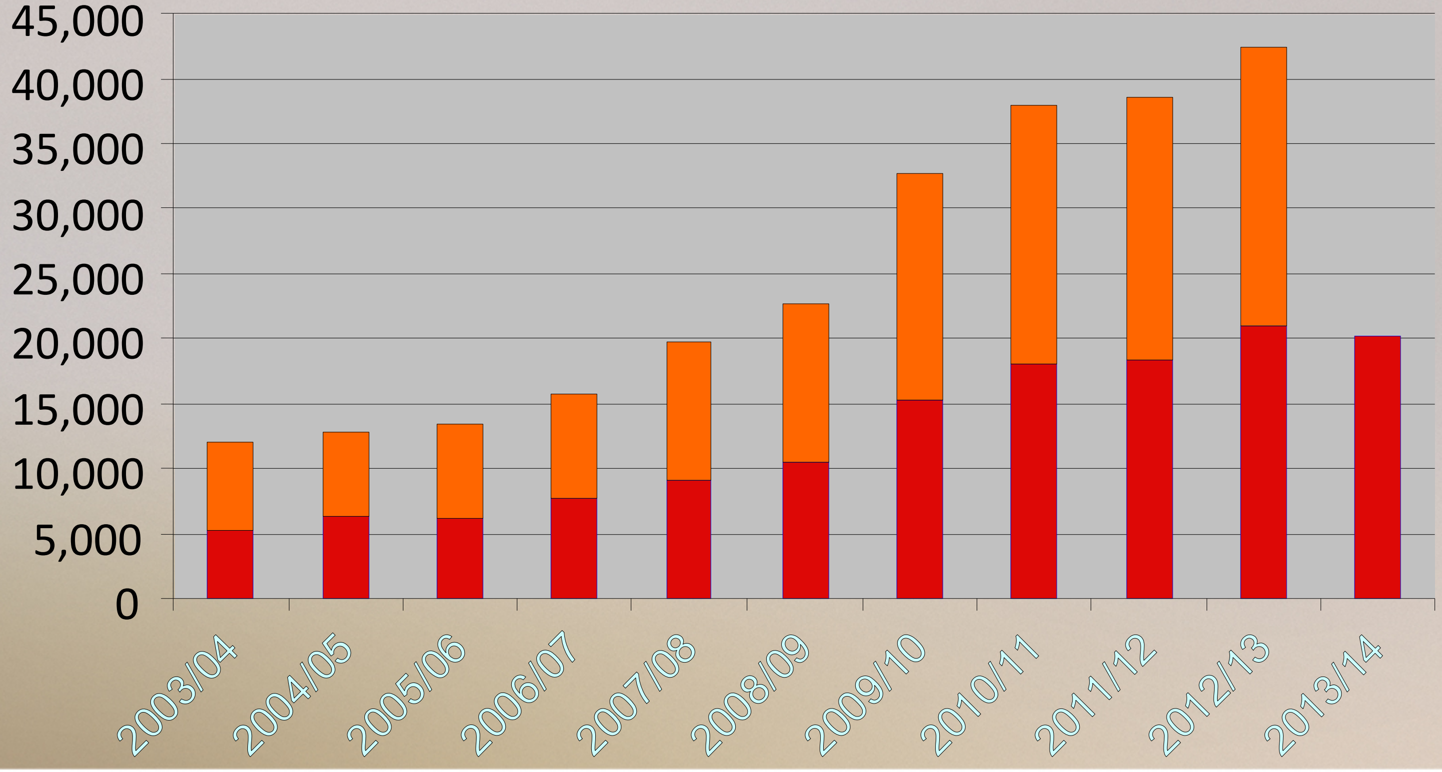
Annual sales revenue has grown at an average annual compound rate of 12.5% over the past 10 years



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 15.0% over the past 10 years (excluding profits from property sales in 2004/05 and 2005/06)



A Breakdown of Sales Growth for the 9 months ended 31 March 2014 by Market Segment

• **Australian Aftermarket** (This includes the ARB Aftermarket, Kingsley Enterprises and the Thule division)	**up 1%**
• **Australian Original Equipment (OEM)**	**down 36%**
• **Exports (non USA)**	**up 19%**
• **Exports (via USA subsidiary)**	**up 16%**
• **Off Road Accessories Thailand**	**up 45%** (mainly intercompany)
Overall Sales Growth	**Flat**

ARB Sales by Market Segment

	9 months to March 2014	9 months to March 2013
Australian Aftermarket (includes Kingsley & Thule)	70%	69%
Original Equipment	6%	10%
Exports – non USA	13%	11%
Exports – USA Sales	11%	10%
	100%	100%

The major change in the sales mix over the past 12 months was the fall in sales to OEM customers, offset by good export sales increases.

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.

Australian New Vehicle Sales
4WD Categories Most Important to ARB

Calendar Year	All SUV's	4WD Utility
2009	188,180	85,813
2010	235,283	93,956
2011	243,928	99,850
2012	305,825	124,536
2013	335,111	137,637
Average annual growth rate over the last 5 years	15%	12%

ARB
4X4 ACCESSORIES

Australian New Vehicle Sales
4WD Categories Most Important to ARB

- **First 9 months of the current financial year compared with the prior period.**

	All SUV's	4WD Utility
9 months to March 2013	235,175	100,017
9 months to March 2014	245,485	94,450
Growth	+4.4%	-5.6%

Australian New Vehicle Sales
4WD Vs Total Vehicle Sales

Calendar Year	Total SUV & 4WD Utility	Total Vehicles	Total SUV & 4WD Utility % of Total Market
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%
2013	471,148	1,136,227	41.5%

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

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 48 ARB branded stores across Australia:
  - 20 company owned stores
  - 28 independent licensed stores.
- This compares with 46 ARB branded stores at this time last year.
- Over the past 12 months, the store changes have been:
  - ARB Hoppers Crossing (Vic), new independent store.
  - ARB Broken Hill (NSW), new independent store;
  - ARB Welshpool (WA), purchased by the company.
  - Independent 4WD specialists also provide ARB with a strong customer base throughout Australia.

Australian Aftermarket Distribution (cont.)

- ARB's Australian Aftermarket sales for the 9 months to March 2014 were up 1% compared with the prior corresponding period.
- This result was quite pleasing as aftermarket sales in the powerhouse mining states of Queensland and WA were well down, but sales growth in the rest of Australia were stronger.
- 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.

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 two new licensed ARB stores are expected to open before the end of this financial year:
  - one in Queensland
  - one in Victoria.
- This will bring the total number of ARB stores in Australia to 50.
- ARB has also agreed to purchase the important ARB Darwin store from the current independent owners
  - this transaction is expected to be completed on 1 July 2014.
- As a result of this purchase, the Company will control its main distribution centres in all states and territories in Australia.

Australian Aftermarket Distribution (cont.)

- Continued store upgrades, both corporate and licensed, are being completed on a regular basis.
- To provide for growth in the near future, Australian warehousing capacity will be increased over the next 12 months:
  - in Queensland, a new Company owned warehouse will be established at Brendale, a northern suburb of Brisbane
  - in NSW, the Company has purchased and will upgrade the sales facility at Moorebank and ARB is looking for additional warehouse space in Sydney
  - in South Australia, ARB is looking to increase its warehouse capacity in Adelaide in the near future.

Original Equipment Sales

- Sales to OEM's such as Toyota, Nissan, Isuzu, Suzuki, etc. in Australia for the 9 months to March 2014 were down 36% over the previous corresponding period.
- This was a very disappointing outcome and resulted mainly from the severe cut backs in expenditure made by the mining industry in Australia.
- ARB's profit margins on OEM sales are low, but they provide important throughput to the factories.
- Through excellent management at the factory level, the impact of lower outputs has been minimised.
- There are still many opportunities in OEM work both in Australia and overseas which ARB will target to restore growth to this segment of the business.

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
  - sales made to all other export customers around the world from Australia, Thailand and also through ARB's recently established European warehouse.
- Total exports represent 24% 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.

Export Sales – non USA

- In the 9 months to March 2014, non USA exports were up a very strong 19% over the previous corresponding 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 recently in Europe
  - improving distribution by increasing the warehouse capacity in Thailand and recently establishing the European warehouse.
- The 4WD vehicle market that ARB services is strong in many parts of the world and provides good growth prospects.

Export Sales – via USA Subsidiary

- In the 9 months to March 2014, sales by Air Locker Inc, ARB's USA subsidiary, have increased by 16% over the previous corresponding period.
- 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.
- In December 2012, ARB appointed a new president of Air Locker Inc. and subsequently strengthened the sales, marketing and distribution teams
  - an improved performance from this subsidiary is becoming evident.

Export Sales – via USA Subsidiary

- The US economy is certainly picking up for the Company and ARB is hopeful of achieving continued growth in this strategic market.
- The Company announced in its half year result that ARB had established a second warehouse in the USA at Jacksonville in Florida.
  - this facility began operations in February 2014
  - ARB now has distribution capacity on both the east and west coasts of the USA
  - management is confident that this important initiative will boost sales and improve distribution efficiency by supplying many customers in a more timely manner.

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 people in the R&D department at the Kilsyth head office in Victoria.

Product Development (cont.)

- One new product that has been under development for the past few years is the new ARB Ascent canopy for the Ford Ranger dual cab utility:

  http://new.arb.com.au/products/canopies-ute-lids/ascent-canopies/

  – this is a world leading product packed with the most up-to-date features.
  – it was released to the Australian Aftermarket last month and is being received well.
  – the range of the ARB Ascent canopies for other vehicle makes will be developed and released over the next 18 months.
  – when the range is completed, the ARB Ascent canopy should provide the Company with strong sales growth in this segment of the business.

Product Development (cont.)

- ARB is continuing to work on a number of other long term product development projects.
- Another new product range should be released to the market in July this year.
- To improve ARB's penetration in export markets, the Company is also undertaking product development projects to enhance the range of ARB accessories available to suit vehicles sold in these markets, particularly the USA.

Production

- Demand for the Company's products manufactured at the Australian plant was subdued during the period, primarily due to the lower demand from OEM customers.
- However, demand on the Thailand plants continued to be strong and the recent expansion of ARB's warehouse capacity to improve supply chain efficiencies and to meet increased export demand has been timely.
- ARB presently has production capacity available to increase supply from both its Australian and Thailand plants.

Financial Position

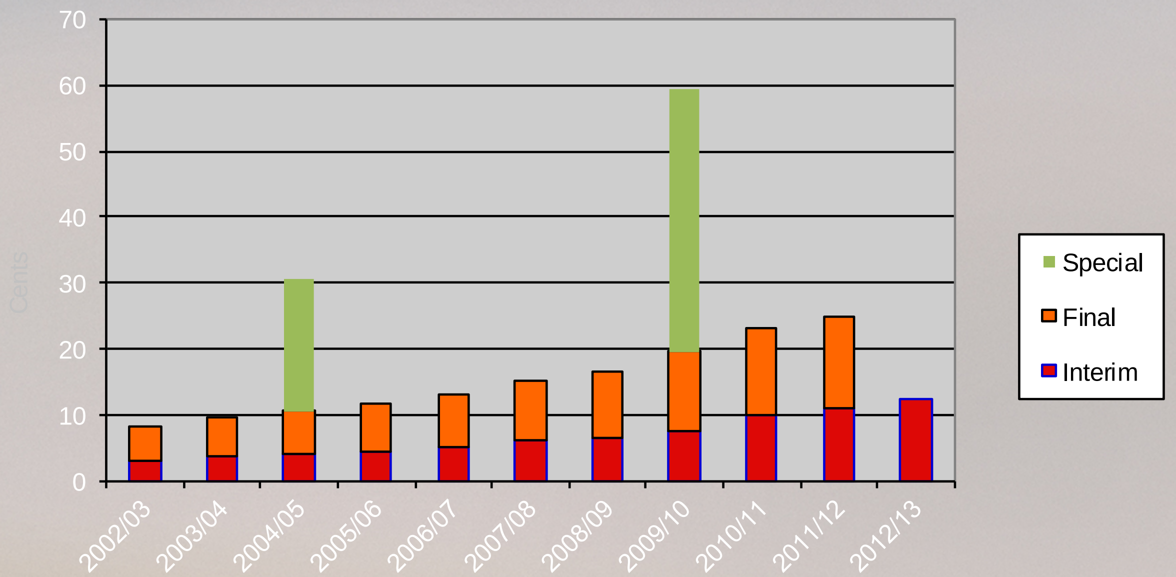
- ARB reported cash flow from operations of $16.5 million for the half year to 31 December 2103 and a net cash balance of $36.7 million as at that date with no debt.
- Since 31 December 2013, ARB is pleased to report that it has continued to generate strong cash flows.
- Capital expenditure is expected to be above average over the full year as a result of the property purchases previously mentioned.

Financial Position (cont.)

- The increased inventory requirements in the recently established warehouses in Europe and the USA have been funded from ARB's existing cash reserves.
- The Company's strong financial position ensures that ARB can react quickly to appropriate opportunities, such as:
  - further earnings accretive capital projects
  - suitable acquisitions of products or businesses
  - capital management initiatives.

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 and 2010 financial years.
- ARB paid:
  - a final fully franked dividend of 15.5 cps on 18 October 2013 (2012: 14.0 cps)
  - an interim fully franked dividend of 13.0 cps on 17 April 2014 (2013: 12.5 cps).

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.

Growth Strategy (cont.)

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

• ARB is clearly a world leader in the development of accessories for 4WD vehicles and the Company remains focused on growth opportunities in its core business to deliver shareholder value.

Outlook

- ARB is pleased with the growth in export markets over the past 9 months which is expected to continue.
- The growth which the Company is starting to experience in some parts of the Australian Aftermarket is also promising and sales to OEM customers appear to have bottomed.
- 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 remain solid.

Disclaimer

- This presentation has been prepared by ARB Corporation Limited (**ARB**). The information in this presentation is current as at 8th May 2014.
- This presentation is not an offer or invitation for subscription or purchase of securities or a recommendation with respect to any security. Information in this presentation should not be considered advice and does not take into account the investment objectives, financial situation and particular needs of an investor. Before making an investment in ARB any investor should consider whether such an investment is appropriate to their needs, objectives and circumstances and consult with an investment adviser if necessary. Past performance is not a reliable indication of future performance.
- ARB has prepared this presentation based on information available to it. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions contained in this presentation. To the maximum extent permitted by law, none of ARB, its directors, employees or agents, nor any person accepts any liability, including, without limitation, any liability arising from fault or negligence on the part of any of them or any other person, for any loss arising from the use of this presentation or its contents or otherwise arising in connection with it.
- This presentation may contain forward looking statements that are subject to a range of risk factors and uncertainties. Whilst the statements are considered to be based on reasonable assumptions, the statements themselves and the assumptions upon which they are based may be affected by a range of circumstances which could cause actual results to differ significantly from the results expressed or implied in these forward looking statements.