

ARB Corporation – Contact Insights

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At Contact Asset Management our investment process is centred around five key elements including Principal Activity, Income, Financial Strength, Management and Valuation. A large part of our research involves meeting management teams and various stakeholders as it allows us to build our investment thesis, observe the current operating environment and assess the long-term growth prospects of the companies we invest in.

During November we visited three ARB Corporation (ARB) stores across Sydney including a private flagship in Brookvale, a corporate flagship in St Peters and a classic corporate in Moorebank. ARB has been an investment held by Contact-managed portfolios since 2010 and has been a key holding in the Contact Australian Ex-50 Fund since inception.

ARB was founded by Anthony (Tony) Ronald Brown in 1975 after he returned to Melbourne from a trip to Cape York in his old Land Rover, which he had completely rebuilt and equipped with a homemade roof rack. Shortly after, his brothers Andrew and Roger, current Managing Director and Chairman, joined to help. Since the early days, ARB has gone from strength-to-strength. Today, it is Australia's largest manufacturer and distributor of 4x4 accessories and has a growing presence offshore with an export network that extends through more than 100 countries. Our site tour highlighted that the entrepreneurial spirit and culture of providing the best products for its customers which has been at the core of ARB's success remains intact.

The first step in our investment process is to look at Principal Activity which encompasses sustainable business models, competitive advantages and industry dynamics. ARB is known for its innovative, high quality products and exceptional customer service which was on display as we walked and talked to staff and customers across the three stores we visited. Interestingly, what was not on display instore were the prices of products. While this is unusual for a retailer, it highlights the underlying pricing power and strength of the ARB brand. Customers who shop at ARB generally do so knowing they will pay a premium for the "ARB experience" and product quality.

The Moorebank classic corporate store has been at this location since the 1980's which means it not only benefits from strong customer relationships developed over upwards of 30 years but is benefiting from significant growth in its catchment. The site features one of the largest workshops in the network and is used to fit out most of their fleet customers. The workshops size

means that it also has the capacity to take on work from other stores, if required. This not only highlighted the benefits of a strong network but also ARB's culture of working collectively and leveraging the network rather than in silos with the overarching goal of creating the best outcome for customers.

ARB's focus on research and development and reinvesting for growth have been key to sustaining its competitive advantage. The new corporate flagship store at Brookvale which has been the fastest growing store within the network, is an example of this. The flagship layout, which is consistent across the network of flagship stores was impressive. It has been designed with the customer experience at the forefront and has ARB's highest selling product, the bull bars, elevated and nicely displayed on the wall, surrounded by various add-ons. As pictured below, the workshop has been designed to provide employees with a bright and spacious working environment.



Source: Contact Asset Management

Another example of the Company's ability to not only reinvest but take a long-term approach to investing for growth was apparent at the St Peters store. Despite sharp declines in sales across the network earlier this year due to COVID-19, ARB pushed ahead with renovations. In hindsight, this turned out to be a great time to be renovating with a reopening that coincided with strong levels of demand driven by Government stimulus and domestic travel.

All three ARB sites were busy and there are some lead times on some products. This tells us that the demand is strong and will continue but supply being tight may also be a great tailwind for

ARB, that will see this cycle extend for a lot longer than once anticipated. These tailwinds are also a feature in offshore markets which is seeing ARB's export business benefit.

Further growth prospects will be enhanced overtime by the increase in contribution from the exports business. The export division took a giant step forward in October 2019 when Ford Performance and ARB announced a collaboration that will see ARB design and develop off-road accessories and vehicle recovery parts for Ford's off-road enthusiasts. The first product launched was a winch-capable front bumper for the Ford Ranger. Eric Cin, global director, Ford Vehicle Personalization and Accessories, was quoted saying "For Ranger customers who want the ultimate adventure gear, a Ford Performance collaboration with ARB is a dream come true. With 45 years of design and engineering experience in the overlanding and rock-crawling world, ARB is bringing additional options for Ranger customers looking to make their truck even more capable."

Since then, ARB products have been making their way onto other Ford models including, F250, Superduty and Bronco, as well as other car makers including Chevrolet, Dodge/Ram, Hummer, ISUZU, Land Rover, Mitsubishi, Nissan and Toyota. All ARB general accessories are available for these vehicles.

Alongside its ability to reinvest, ARB has provided a growing dividend for over 10 years. This forms part of Income which is the second area of our investment process. We look to invest in businesses that can reinvest for growth whilst also providing shareholders with a sustainable and growing dividend.

ARB's ability to continue investing for the long term and maintain its dividend despite the pandemic was made possible by its Financial Strength which is the third area of our investment process. ARB has historically maintained a strong Balance Sheet and entered the COVID-19 crisis in a net cash position. COVID-19 was a period when most companies were cutting dividends, diluting shareholders by raising equity and cutting back on research and development. Instead, by maintaining a conservative approach to its financial position, ARB was able to continue investing in research and development, release new products, open new stores, continue its offshore expansion and continue paying dividends.

ARB's success over the long term is a credit to its longstanding, aligned and experienced management team. This forms the fourth element of our investment process. ARB is a founder led business with the entrepreneurial like culture once again evident during our store visits. The wider team display a strong sense of ownership and desire to create long lasting, positive relationships with their customers by producing the best outcomes. Being a founder-led business, we believe managements interests are aligned with ours and the ARB team have a proven track record of being long-term focused and have delivered strong dividends and earnings growth over time.

Finally, the last piece of our investment process is Valuation. We look at various metrics to value the business including discounted cash flows and earnings multiples. As long-term investors we focus on the future growth prospects and while valuation is important, it's our focus on the first four elements of our investment process being Principal Activity, Income, Financial Strength and Management that have allowed us to continue to hold and add to ARB over the years. Experience has taught us that quality companies will continue to surprise on the upside.

ARB's business model, well regarded brand, management's long-term focus and a strong Balance Sheet, position the business to take advantage of future growth opportunities in Australia and offshore. Our site tours, like this one, provide us with the ability to challenge our investment thesis and revisit the long term growth prospects of the companies we invest in.



Source: ARB Corporation

The Contact Australian Ex-50 Fund Product Disclosure Statement (PDS), Reference Guide and Investor Handbook is available at <https://contactam.com.au/ex-50-fund-overview/>

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