DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

8 November 2016

DULUXGROUP DELIVERS SOLID PROFIT GROWTH

Group performance

DuluxGroup today reported net profit after tax (NPAT) of $130.4 million for the 12 months ended 30 September 2016, an increase of 4.6% compared with the 2015 equivalent NPAT[1] of $124.7 million.

Sales revenue increased 1.7% to $1.72 billion, with otherwise solid growth impacted by transitional retail market impacts in Australia and New Zealand and declines in the Australian resources infrastructure and Papua New Guinea markets.

Earnings before interest and tax (EBIT) was $201.1 million, an increase of 4.5% excluding non-recurring items[1] in the prior year.

Cash flow performance was strong, with cash conversion[2] at 87%, compared to 83% in the prior year. Net debt to EBITDA only increased marginally from 1.2x to 1.3x, despite investment in the new paint factory and acquisitions.

Dividend

The Board has declared a final dividend of 12.5 cents per share, fully franked, taking the total dividend for the year to 24.0 cents per share, which represents a 6.7% increase on 2015 and a payout ratio on NPAT of just over 70%.

Business performance

Managing Director Patrick Houlihan said the result was driven by consistent earnings growth in Australia and New Zealand from DuluxGroup's heritage businesses (Dulux, Selleys and Yates) and a solid collective improvement from B&D, Lincoln Sentry and Parchem.

"Our Dulux, Selleys and Yates businesses, which make up more than two thirds of DuluxGroup's revenue, collectively grew earnings by 6.2%, and individually delivered record profits," said Mr Houlihan.

"These businesses have done well despite short-term retail market challenges, including the impact of the Masters closure and stock liquidation. The Dulux trade and specialty coatings businesses were particularly strong, which demonstrates the value in our broad end-market approach."

B&D, Lincoln Sentry and Parchem, which were acquired in late 2012, collectively delivered EBIT growth of 8.6% in mixed market conditions.

"These businesses make up about 25% of DuluxGroup's revenue. They are all profitable market leaders and are together delivering a solid return on the original acquisition cost," said Mr Houlihan.

"Lincoln Sentry delivered excellent revenue and profit growth and Parchem did a great job on margins and costs to hold profit in very tough markets. B&D Garage Doors & Openers had a disappointing result and work continues in reshaping the marketing and distribution of this business."

Earnings for DuluxGroup's offshore businesses, which represent around 5% of DuluxGroup's revenue, were down by $2.7 million, solely due to the market decline in Papua New Guinea.

Investing for growth

"During the year we made excellent progress on important growth initiatives," said Mr Houlihan.

"We acquired Craig & Rose, a small, premium paint business in the United Kingdom. For a modest investment, it provides a local brand, and R&D, manufacturing and distribution capability from which to gradually grow a position in the UK.

"In Australia, the new Dulux and Selleys distribution centre in New South Wales is now fully operational, supporting the strong growth we are seeing in these businesses. The construction of our state-of-the-art $165m paint factory in Melbourne is progressing well, and remains on budget and on time, with production scheduled for late 2017."

Outlook for 2017

Lead market indicators for our key markets remain largely positive. Our core existing home renovation markets, which account for ~65% of group revenue, are expected to continue providing resilient, profitable growth. Given the pipeline of projects, new housing activity (~15% of group revenue) is expected to remain relatively strong.

Subject to economic conditions, and excluding non-recurring items, we expect that 2017 net profit after tax will be higher than the 2016 equivalent of $130.4 million.

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[1] There were no non-recurring items impacting the income statement in FY16. Non-recurring items incurred in FY15 related to the new distribution centre project in NSW and the new paint factory project in Victoria and resulted in an adverse impact of $11.9 million after tax ($17 million pre-tax). These are detailed on p.16 of the 'Review of Operations' contained in the Appendix 4E, Preliminary Final Report. Directors believe that the result excluding these items provides a better basis for comparison from period to period and a better understanding of the underlying performance of the business.

[2] Operating cash flow before interest and tax, less minor capital expenditure divided by EBITDA, excluding non-recurring items.