DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

14 December 2016

2016 AGM – MANAGING DIRECTOR'S ADDRESS

Thank you Peter.

And good morning ladies and gentlemen. I am also pleased to welcome you here today and report on another successful year at DuluxGroup.

Operating result

Net profit after tax was $130.4 million, which was an increase of 4.6% on a like-for-like basis. The increase was 15.6% on a statutory basis, if the prior year's non-recurring items related to our important supply chain projects are included.

In discussing key aspects of the result I will exclude the impact of these non-recurring items.

Earnings before interest and tax (EBIT) increased 4.5%, which is consistent with the level of growth delivered in 2015.

Key drivers of the results

Sales revenue grew 1.7% overall in mixed market conditions. Otherwise solid growth was impacted by the short-term effect of changes taking place in Australian and New Zealand retail channels, combined with declines in Australian resources infrastructure and Papua New Guinea markets.

The Group EBIT result was driven by another year of consistent earnings growth from DuluxGroup's heritage Dulux, Selleys and Yates businesses. These businesses account for more than two thirds of DuluxGroup's revenue, and collectively they grew earnings by 6.2% and individually they delivered record profits. This is a pleasing result, particularly given revenue impacts from short-term retail market changes, including the closure of Masters and the transition of our Dulux paint brand out of Mitre 10 in New Zealand.

The more recently acquired B&D, Lincoln Sentry and Parchem businesses, collectively grew earnings by 8.6%. Lincoln Sentry cabinets & architectural hardware delivered a particularly strong result, while Parchem construction products did very well to maintain profit in tough, resource related, market conditions. Earnings in B&D garage doors & openers were disappointingly lower. All three businesses are profitable market leaders and are together delivering a solid return on the original acquisition cost. However we still have more work ahead to take B&D from its 9% EBIT margins to that next level of consistent high performance which we have established in our heritage DuluxGroup businesses over many years.

Finally, earnings in our offshore businesses were down 43% - or $2.7million – due to significantly weaker economic conditions in Papua New Guinea.

Outlook for 2017

Turning now to the outlook for the 2017 financial year, lead indicators for our key markets remain largely positive. Our core existing home renovation and maintenance markets – which, as Peter said account for about two thirds of Group revenue - are expected to continue to provide resilient, profitable growth. In Australia, our primary market is approximately 10 million existing homes, 70% of which are more than 20 years old. Sales to consumers from retail home improvement channels have remained consistently strong, and the trade sector of the core renovation market, which grew strongly in 2016, is well placed to continue growing. We do not envisage any material impacts related to the shut-down of Masters, underlying demand remains good and our market positions with our strategic distribution partners are strong.

The new housing segment accounts for approximately 15% of Group revenue and we tend to focus on the higher margin, premium end of this market. Although new housing approvals have peaked we expect this market to remain strong in 2017, given the solid pipeline of work yet to be commenced and completed, particularly in the multi-residential segment.

Commercial markets are expected to remain solid, however resources infrastructure markets will continue to struggle.

Markets in China and PNG are expected to remain weak in the immediate term.

However, the key message here is that we are confident that our core, renovation and repair markets in Australia and New Zealand are on track to revert to normal, resilient growth rates. The retail channel changes, which I referred to earlier, are now behind us, and strong consumer demand for both retail 'do-it-yourself' and trade 'do-it-for-me' projects is expected to continue.

Our businesses are well-positioned to capitalise on these conditions and continue our track record of profitable market share growth. We have earned strong positions with the best retail partners, have well-established trade networks, have further strengthened our key brands and have a strong marketing and innovation pipeline.

Trading update

Looking now to the 2017 financial year, our trading performance for the first two months has been consistent with our guidance.

We have had a strong start to the year, with Group revenue growth in the first two months comfortably ahead of the same time last year, with the Dulux Paints Australia and New Zealand segment a key driver. All operating segments have grown revenue, and we are happy with the flow through to profit.

We have also clarified our guidance in relation to the new paint factory, which is expected to be commissioned late next year. We have already outlined that we expect the factory to be EBIT neutral in its first full year of operation, which will be FY19, with approximately $7m of cost benefits offsetting an equivalent $7m of increased depreciation. However, we would like to confirm that we are also targeting an EBIT neutral outcome in FY18, with the ramp up of benefits and other savings expected to offset the depreciation that will begin when the factory opens.

Given all of this, we retain our outlook that, subject to economic conditions and excluding non-recurring items, we expect overall net profit after tax in FY17 to be higher than the FY16 equivalent of $130.4 million.

2017 strategic focus areas

Our primary focus continues to be driving profitable market share growth in our core Australian and New Zealand paint, specialty coatings and adhesives businesses. This encompasses our Dulux, Selleys and Parchem businesses and accounts for more than 70% of revenue and 80% of EBIT.

Strong investment in our premium brands through marketing, innovation and customer service remains fundamental to extending our market leadership positions. In the last 18 months we have launched a number of product innovation break-throughs and we will continue to launch a pipeline of new products to drive category growth. Our Dulux 'Wash & Wear' range, which we launched just over a year ago, is gaining more and more traction in both consumer retail and trade painter channels and Selleys has launched a number of market-firsts. I encourage you to look for those when you go through our business displays downstairs after this meeting.

We have extended the distribution of Porter's Paints, which we acquired in 2015, including across our Dulux Trade Store network, and we will be focussed on capturing the profitable growth opportunities from its increased distribution.

Parchem has made good progress on restructuring the business, reshaping its distribution strategy and reducing costs. It will continue to move its focus to the growing civil infrastructure and commercial construction market segments.

Our adjacent home improvement businesses in Australia and New Zealand – Yates, Lincoln Sentry and B&D – are profitable complements to our core business. Yates, and more recently, Lincoln Sentry have been strong performers and continue to build their market leading positions. Both are focussed on brand-led market share growth, including generating increased sales from greater consumer and customer engagement through digital communications.

B&D has sharpened its distribution, sales and customer service and has refined its product mix. It has established a new brand position articulated as ‘Home Safe Home’ which focuses consumers on the safety and security of what is most important to them – their family and their home. The business is now focussed on capturing the benefits from its increased brand investment, particularly in marketing and innovation. Again, I encourage you to look at the market-first ‘Auto-lock’ product being demonstrated downstairs, which is being well received by our customers.

Offshore, we are continuing to invest in our China and South East Asia businesses. Our focus here is on paints and Selleys. We are seeing good results from the new Camel Professional paints range and Selleys Liquid Nails in China and Hong Kong. We will continue to exploit those niche opportunities.

The economic outlook for Papua New Guinea remains weak. Our market leading paints business there is reducing its cost base in line with the prevailing conditions, while ensuring it remains well placed for any market recovery.

In the UK, our focus is on investing in sales, marketing, distribution and business development to drive growth in our small, premium paints position with Craig & Rose. This is the oldest independent paint brand in the UK with a heritage dating back to 1829. We will also continue to look for any potential opportunities to launch other elements of our portfolio such as Selleys and Porter’s paints.

People and safety

Turning to safety, we continue to make good progress on our balanced strategy of disaster prevention, fatality prevention, personal injury prevention and sustainability. Safety is a cornerstone of our DuluxGroup values and we encourage our employees to report anything that could potentially cause injury. The level of reporting reached record levels this year. This prevention mindset is reflected in our recordable injury rate falling 11% this year and the ‘severity’ of injuries has also fallen, by 40%. While our injuries are low by industry standards, ‘zero harm’ remains our target.

Thank you

Six consecutive years of underlying net profit growth as a listed company is a healthy platform from which to build an even stronger DuluxGroup. I’d like to thank our employees at all levels for their ongoing commitment to achieving just that.

I would like to thank our customers for their ongoing partnership with us.

And, I’d also like to thank Peter Kirby and the rest of the DuluxGroup Board for their support.

Finally, I thank you, our shareholders for your ongoing belief and investment in DuluxGroup.

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