DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

21 December 2017

2017 AGM – MANAGING DIRECTOR'S ADDRESS

Thank you Peter, and good morning ladies and gentlemen.

It is my pleasure to welcome you here today and to report on another successful year at DuluxGroup. As Peter outlined, DuluxGroup finished the year very well placed, with strengthened market positions, good streams of growth and healthy financial metrics. I'll outline the result in more detail before turning to progress against our strategic growth priorities.

Operating result

In terms of the operating result, revenue grew 4% to $1.78 billion and EBIT grew 6.5% to a record $214.2 million.

DuluxGroup's net profit after tax increased 9.6% to $142.9 million.

The result was assisted by solid financial discipline, with excellent cash flow generation which was reflected in cash conversion of 86%. This was in line with 2016.

And, as Peter mentioned, the full year dividend increased 10.4% on the prior year.

Key drivers of the result

Looking now at the key drivers of the result.

Group revenue growth of 4% was driven by all of our business segments, in generally positive market conditions. Dulux and Selleys were particularly strong, growing revenue by more than 5%.

In terms of EBIT, Dulux, our largest business, grew by $8.5m or 5.4%, driven by market share gains in positive markets.

Our other Australian and New Zealand segments - Selleys & Parchem, B&D Group and Lincoln Sentry – all delivered strongly. Collectively, they grew profit by $8.2m or 14.1%.

The only area where profit was down was in our 'Other businesses' segment. This was due to a weaker result in our relatively small joint venture in China. The rest of this segment performed well, with growth in Yates, DGL South East Asia and Dulux Papua New Guinea offsetting the planned strategic investment in our new ‘start up’ business in the UK and Ireland.

Outlook for 2018

In terms of the outlook for our businesses in 2018, our view remains consistent with our full year results announcements.

Overall for DuluxGroup, conditions are expected to remain positive. We are confident that our core renovation and repair markets in Australia and New Zealand are on track to provide ongoing, resilient growth. 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, with an objective to continue our track record of profitable market share growth.

Trading update

Following the first two months of the financial year, I can report that our businesses have started well, achieving good revenue growth. Group revenue is comfortably ahead of the same time last year, led by Dulux and each of our other Australian and New Zealand business segments.

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 FY18 to be higher than the FY17 equivalent of $142.9 million.

Strategic focus areas

During the year, we continued to shape the company for ongoing growth. We think about our strategic growth priorities in three focus areas.

Firstly, defending and growing our market leading Dulux, Selleys and related businesses in Australia, New Zealand and Papua New Guinea. During the year we continued to focus on profitable market share growth in these businesses, which account for approximately 70% of group sales and more than 80% of business EBIT. Even after adjusting for our investment in the new $165 million Dulux paint factory, they deliver a combined return on net assets – or RONA – of more than 35%.

We see a good runway of growth for Dulux and Selleys, including through profitable market share gains, continual innovation and adjacencies such as Parchem construction chemicals.

We have made good progress restructuring Parchem, reducing the cost base, exiting low margin categories and improving its product mix. The business delivered solid profit growth this year. It is increasing its focus on the growing civil infrastructure and commercial construction market segments.

Our second area of strategic growth focus is our portfolio of adjacent home improvement businesses in Australia and New Zealand – Yates, Lincoln Sentry and B&D Group. They are all profitable market leaders, with strong growth potential.

Yates has continued to build its market leadership. The Munns lawn products business, acquired in 2016, has been successfully integrated and is making a very good contribution. We will continue to seek similar, logical bolt-on and category extension opportunities.

Lincoln Sentry has gone very well in the past few years under DuluxGroup ownership. It has doubled its EBIT in the past five years and is well placed for ongoing growth.

B&D Group is a good business which, after five years of ownership, is delivering above our cost of capital. We have continued to reshape the revenue mix of this business towards more premium, profitable segments and have also increased investment in marketing, innovation and customer service. This iconic brand is being revitalised under the 'Home Safe Home' banner. We are happy with progress, but also see good opportunity for further improvement.

Finally, our offshore business is a relatively small but important strategic growth complement to our strong ANZ base.

Increasingly, we are taking a Selleys-led approach. In Asia, our focus is on trade distribution, given this tends to be a 'do-it-for-me' rather than 'do-it-yourself' consumer market. Selleys has successfully competed in Hong Kong and South East Asia for more than two decades. The new Avian Selleys joint venture in Indonesia, as Peter mentioned, presents exciting opportunities for the business in this large and dynamic market. This joint venture is capital light and will ultimately give Selleys access to approximately 40,000 retail hardware outlets. It is on track to begin operating in the second half of 2018.

We have also made progress in the UK, which is a market with well established, do-it-yourself retail channels, similar to Australia and New Zealand. We are transferring our consumer marketing and retail category management capabilities to build a market position for Selleys and our Craig & Rose premium paints range. We are pleased with the progress during this first year, with both brands securing retail distribution with Bunnings and Homebase. We will continue to seek out new opportunities in other similar markets, most likely using our Selleys-led approach.

Our People

We are also investing in capability at all levels to ensure we have the right mix of deep industry and DuluxGroup experience. Stability in key operating roles has been balanced with new thinking, particularly with a global perspective.

This year we welcomed Richard Stuckes to the DuluxGroup Executive team as Chief Operating Officer for DGL International, based in the UK. Richard brings 25 years of experience and expertise in global consumer facing companies, including more than eight years leading Akzo Nobel and ICI decorative paints in regions including the UK, Ireland, Europe and China.

Murray Allen was appointed Executive General Manager for B&D Group earlier this year. Murray previously led the Dulux marketing & innovation function and has more than two decades of experience in senior roles within DuluxGroup and external businesses.

We have a deep pool of talent across our business and functional areas and are continuing to attract high calibre women to key roles. Three of our business general manager roles are held by women, as are the marketing director roles for both Dulux and Selleys.

Safety

Keeping our people safe is fundamental to how we work at DuluxGroup. We have not had a fatality for more than two decades, however we remain hyper vigilant to the risks. We continue to make good progress on our balanced strategy of disaster prevention, fatality prevention and personal injury prevention. Our injury rate is at its second lowest level in more than a decade and at top quartile industry performance levels. Very importantly, our serious near miss incidents were down 45% to the lowest level on record. However, we are striving to prevent any injuries and we encourage our employees to speak-up about anything that could present a hazard. I am pleased that this year, the level of reporting for 'near miss hazards' was at an all-time high. And, as Peter mentioned, we are also making good progress with our sustainability goals.

Thank you

DuluxGroup's origins date back to 1918 and we start our centenary year on a very strong foundation, with our businesses well placed for ongoing profitable growth. I would like to thank all of our employees for their tremendous contribution to another successful year for DuluxGroup. I feel proud to lead a motivated, performance-driven team who live our DuluxGroup Values every day in the work they do.

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

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.

Thank you.

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