



DuluxGroup Limited
ABN 42 133 404 065
Registered Office:
1956 Dandenong Road
Clayton Victoria 3168
Australia

6 May 2019

Dear Shareholder,

Recommended proposal from Nippon Paint to acquire your DuluxGroup shares

On 17 April 2019, DuluxGroup Limited (“DuluxGroup”) announced that it had entered into an agreement under which it is proposed that Nippon Paint Holdings Co., Ltd (“Nippon”) will acquire DuluxGroup by way of a Scheme of Arrangement (“Scheme”).

Should the Scheme be approved by shareholders and otherwise become unconditional, DuluxGroup shareholders at the relevant record date will receive \$9.80 cash per share, inclusive of a \$0.15 per share fully franked interim dividend intended to be paid by DuluxGroup,¹ as well as one or more fully franked special dividends of up to \$0.26 per share in aggregate.² The cash amount of the interim and special dividends would reduce the cash price of \$9.80 per share.

After carefully considering the alternative strategic options available to DuluxGroup to maximise value, including continuing to pursue domestic and global growth as a standalone company, my fellow directors and I have concluded that the proposed transaction with Nippon is in the best interests of our shareholders³.

You do not need to take any action at the present time. A Scheme booklet containing relevant information including an Independent Expert’s Report is expected to be made available to you in mid-late June 2019, and a shareholder vote in relation to the Scheme is expected to take place in late July or early August 2019.

Further information is contained in DuluxGroup’s ASX announcement in relation to the recommended proposal, which is attached to this letter.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Graeme Liebelt', written over a horizontal line.

Graeme Liebelt
Chairman

¹ Subject to formal declaration by the DuluxGroup Board, expected to occur with the interim result. If DuluxGroup declares an interim dividend of less than \$0.15 per share, the \$9.80 will be reduced by the amount below \$0.15 per share that DuluxGroup declares. Nippon to pay up to \$9.65 per share.

² DuluxGroup has the flexibility to pay special dividend(s) which are in aggregate more than \$0.26 per share if it has sufficient franking credits and with the consent of Nippon (such consent not to be unreasonably withheld).

³ In the absence of a Superior Proposal and subject to an Independent Expert’s Report concluding that the Scheme is in the best interests of DuluxGroup shareholders, the Board of DuluxGroup unanimously recommends that DuluxGroup shareholders vote in favour of the Scheme. Subject to those same qualifications, each director intends to vote all the DuluxGroup shares held or controlled by them in favour of the Scheme.



DuluxGroup Limited

ABN 42 133 404 065

17 April 2019

DULUXGROUP BOARD UNANIMOUSLY RECOMMENDS ACQUISITION PROPOSAL BY NIPPON PAINT

- Nippon Paint Holdings Co., Ltd ('Nippon') proposal to acquire DuluxGroup Limited ('DuluxGroup') via Scheme of Arrangement for \$9.80 per share in cash, inclusive of \$0.15 per share interim dividend intended to be paid by DuluxGroup¹
- Potential fully franked dividends included in the \$9.80 of up to \$0.41 per share (interim dividend of \$0.15 per share per above, and special dividend(s) of up to \$0.26 per share²) which would have up to \$0.176 of franking credits attached for shareholders that are eligible to use them. The cash amount of the dividends will be deducted from the cash consideration.¹
- 16.1x FY18 EV / EBITDA implied acquisition multiple³ and a 35.4% premium to the 3-month volume weighted average price ('VWAP') of DuluxGroup shares⁴
- Values DuluxGroup equity at \$3.8 billion and an implied enterprise value of \$4.2 billion³
- Two world class companies with complementary geographic market exposures
- "DuluxGroup will still be DuluxGroup." No expected changes to DuluxGroup leadership, business portfolio, manufacturing and operations. Nippon has essentially no ANZ operations
- Increased opportunity for DuluxGroup to pursue its growth ambitions, leveraging Nippon's global scale and resources

DuluxGroup announced today that it has entered into a Scheme Implementation Deed ('SID')⁵ with Nippon, under which Nippon proposes to acquire 100% of DuluxGroup shares for \$9.80 by way of a Scheme of Arrangement ('Scheme').

The cash price of \$9.80 represents:

- a 27.8% premium to DuluxGroup's closing price of \$7.67 on 16 April 2019;
- a 32.7% premium to the 1-month VWAP of \$7.39;⁶
- a 35.4% premium to the 3-month VWAP of \$7.24;⁴ and
- implied acquisition multiples of 16.1x FY18 EV / EBITDA, 18.6x FY18 EV / EBIT and 25.3x FY18 P / E.³

¹ Subject to formal declaration by the DuluxGroup Board, expected to occur with the interim result. If DuluxGroup declares an interim dividend of less than \$0.15 per share, the \$9.80 will be reduced by the amount below \$0.15 per share that DuluxGroup declares. Nippon to pay up to \$9.65 per share.

² DuluxGroup has the flexibility to pay special dividend(s) which are in aggregate more than \$0.26 per share if it has sufficient franking credits and with the consent of Nippon (such consent not to be unreasonably withheld).

³ Based on DuluxGroup FY18 EBITDA of \$257.7 million, FY18 EBIT of \$223.2 million and FY18 NPAT of \$150.7 million. Enterprise value derived from \$9.80 per share multiplied by 389.3 million shares on issue and includes DuluxGroup net debt (inclusive of USPP hedge) of \$340.5 million and minority interest of (\$2.7 million) as at 30 September 2018.

⁴ 3-month VWAP of DuluxGroup shares of \$7.24 from 17 January to 16 April 2019.

⁵ Capitalised terms have the meaning given to them in the SID, unless otherwise defined in this announcement.

⁶ 1-month VWAP of DuluxGroup shares of \$7.39 from 17 March to 16 April 2019.

Subject to finalisation of the interim result, the DuluxGroup Board intends to declare and pay a fully franked interim dividend of up to \$0.15 per share in respect of the six months ended 31 March 2019¹, as well as one or more fully franked special dividends totalling in aggregate up to \$0.26 per share. DuluxGroup is considering the timing of the payment of the special dividend(s) and will provide an update on this following finalisation of its interim result. The cash amount of the interim and special dividends would reduce the cash price of \$9.80 per share.

DuluxGroup Chairman, Mr. Graeme Liebelt said: “The Board has carefully considered the strategic options available to DuluxGroup to maximise value, including continuing to pursue domestic and global growth as a standalone company, and we have unanimously concluded that the transaction with Nippon is in the best interests of our shareholders. It provides an opportunity for shareholders to realise a significant premium to market value for their shares and is on terms that reflect the strategic value of DuluxGroup to Nippon. Nippon has been extremely complimentary of DuluxGroup’s team, capability, high quality businesses and track record of performance, all of which they want to maintain. I have confidence that this new partnership will provide strong benefits for both companies.”

DuluxGroup Managing Director and CEO, Mr. Patrick Houlihan said: “We are proud of the successes we have achieved as an independent company since listing on the Australian Securities Exchange in 2010 following our demerger from Orica Limited. The proposed transaction is an endorsement of the exceptional company that our people have built over a number of years. Nippon is a global leader in the paints and coatings sector and we are confident that Nippon will continue to support the ongoing success of DuluxGroup’s businesses and brands, and that this will create significant opportunities for our staff, customers and strategic partners. I am personally excited by the opportunities that we can explore together as we continue to grow all of our ANZ businesses and accelerate our growth ambitions offshore.”

Eligible shareholders may realise up to an additional \$0.176 per share in franking credits value and therefore up to \$9.976 in value per share in connection with the Scheme (assuming that \$0.41 per share of dividends are paid), which represents a 37.8% premium to the 3-month VWAP of DuluxGroup shares⁴ and a 16.4x implied FY18 EV / EBITDA multiple.³ The extent to which a shareholder will be able to capture the benefit of the franking credits will depend on their individual tax circumstances.

Nippon’s intentions for DuluxGroup

Nippon is a global leader in the paints and coatings industry and generated approximately A\$7.8 billion in sales for the financial year ended 31 December 2018, with operations in Asia, Europe and the US. Nippon has essentially no operations in Australia or New Zealand.

The proposed acquisition is an important step in Nippon’s global growth ambitions. DuluxGroup will be run as a separate division and will retain the DuluxGroup name.

Nippon’s President & CEO, Mr. Tetsushi Tado said: “We are excited by the prospect of welcoming DuluxGroup into the Nippon Group. Patrick and his team have built DuluxGroup into the pre-eminent provider of housing improvement products in Australia and New Zealand with market-leading and iconic brands operating from world-class manufacturing facilities. The combination of DuluxGroup and Nippon will provide further avenues of growth for DuluxGroup and create exciting opportunities for all of the DuluxGroup management team and employees. Nippon intends to maintain the legacy developed by DuluxGroup and facilitate DuluxGroup’s existing vision by leveraging the resources of the broader Nippon platform. As part of the Nippon Group, it will be business as usual and DuluxGroup will still be DuluxGroup.”

DuluxGroup Board unanimously recommends the Scheme

In the absence of a Superior Proposal and subject to an Independent Expert's Report concluding that the Scheme is in the best interests of DuluxGroup shareholders, the Board of DuluxGroup unanimously recommends that DuluxGroup shareholders vote in favour of the Scheme. Subject to those same qualifications, each director intends to vote all the DuluxGroup shares held or controlled by them in favour of the Scheme.

The Board of Directors of DuluxGroup believes that the proposed Scheme is compelling for DuluxGroup shareholders for the following reasons:

- **Attractive premium:** the cash consideration of \$9.80 per share represents a 27.8% premium to the last closing price of \$7.67, a 32.7% premium to the 1-month VWAP of \$7.39⁶ and a 35.4% premium to the 3-month VWAP of \$7.24;⁴
- **Attractive acquisition multiples:** the cash consideration of \$9.80 per share represents 16.1x FY18 EV / EBITDA, 18.6x FY18 EV / EBIT and 25.3x FY18 P / E;³
- **Certainty of value:** the 100% cash consideration provides DuluxGroup shareholders with certainty of value and the opportunity to realise their investment for cash, in full; and
- **Interim and special dividends:** there may be an opportunity for eligible shareholders, subject to their marginal tax rate, to receive an additional benefit from franking credits that may be attached to the payment of one or more special dividends. DuluxGroup is considering the timing of the payment of the special dividend(s) and will provide an update on this following finalisation of its interim result.

Details of the Scheme Implementation Deed

The implementation of the Scheme is subject to certain conditions including the approval of DuluxGroup shareholders and the Court, no prescribed occurrences, restraints, material adverse change or material breach of warranty by DuluxGroup or Nippon, and the approval of the Australian Foreign Investment Review Board and the New Zealand Overseas Investment Office.

Nippon has advised DuluxGroup that it expects to fund the cash consideration to be paid by Nippon through a new committed debt acquisition facility. The Scheme is not conditional on Nippon securing funds.

The SID contains customary exclusivity provisions including no shop and no talk restrictions and a notification obligation, as well as a matching right. The SID also details circumstances under which DuluxGroup may be required to pay Nippon a break fee and circumstances where Nippon may be required to pay DuluxGroup a reverse break fee, both equivalent to approximately \$38 million.

Full details of the conditions to the Scheme and other agreed terms are set out in the SID, a copy of which will be attached to a separate ASX announcement this morning.

Indicative timetable and next steps

DuluxGroup shareholders do not need to take any action at the present time.

A Scheme booklet containing information relating to the Scheme, the Independent Expert's Report on whether the Scheme is in the best interests of DuluxGroup shareholders, the reasons for the directors' unanimous recommendation and details of the Scheme meeting is expected to be mailed to DuluxGroup shareholders in June 2019.

It is expected that DuluxGroup shareholders will have the opportunity to vote on the Scheme at a Scheme meeting to be held in late July 2019. Subject to the conditions of the Scheme being satisfied or (if applicable) waived in accordance with the SID, the Scheme is expected to be implemented in mid-August 2019.

These dates are indicative and subject to change.

Macquarie Capital (Australia) Limited is acting as financial adviser and Gilbert + Tobin as legal adviser to DuluxGroup.

Further information

For further information, please contact:

Media contact: Lisa Walters, Corporate Affairs Manager
+61 3 9263 3652 or +61 421 585 750 or
lisa.walters@duluxgroup.com.au

Investor and analyst contact: Karen McRae, Investor Relations Manager
+61 3 9263 3586 or +61 417 186 500 or
karen.mcrae@duluxgroup.com.au

About DuluxGroup

DuluxGroup is a leading marketer and manufacturer of premium branded products, primarily focussed on the home improvement market in Australia and New Zealand.

DuluxGroup's businesses in ANZ comprise Dulux ANZ Paint & Coatings (which includes brands such as Dulux⁷, British Paints, Porter's Paints and Cabot's⁷), Selleys adhesives and sealants, Parchem construction chemicals, Yates garden care, B&D garage doors and Lincoln Sentry cabinet & architectural hardware. DuluxGroup also owns Dulux Papua New Guinea and has been expanding its presence in other offshore markets, including Selleys in Asia and Craig & Rose paints in the UK.

DuluxGroup employs approximately 4,000 people in Australia, New Zealand, Papua New Guinea, South-East Asia, China and the United Kingdom.

DuluxGroup is listed on the Australian Securities Exchange under the code ASX: DLX.

For further information on DuluxGroup, including ASX announcements and presentations, please visit our website at www.duluxgroup.com.au.

About Nippon

Nippon, founded in 1881, is a global leader in the paints and coatings industry. It has around 20,000 employees worldwide and provides customers with advanced, innovative products and value-added services.

Headquartered in Osaka, Japan, Nippon operates in 26 countries, and generated reported net sales of JPY 628 billion (A\$7.8 billion) for the financial year ended 31 December 2018.

Nippon offers a comprehensive portfolio of paints and coatings products for architectural, automotive, industrial and marine applications, as well as an array of surface treatment agents.

Nippon is listed on the Tokyo Stock Exchange trading under the code TYO: 4612.

For more information, please visit www.nipponpaint-holdings.com.

ENDS

⁷ DuluxGroup is an Australian company that owns the Dulux trade mark in Australia, New Zealand, Papua New Guinea, Fiji and Samoa and the Cabot's trade mark in Australia, New Zealand, Papua New Guinea and Fiji. DuluxGroup is not associated with, and has no connection to, the owners of the Dulux and Cabot's trade marks in any other countries, nor does it sell Dulux or Cabot's products in any other countries.