DuluxGroup

DuluxGroup Limited

ABN 42 133 404 065

# ASX Announcement

**13 November 2013**

## DULUXGROUP DELIVERS A STRONG OPERATING RESULT

DuluxGroup today reported statutory net profit after tax (NPAT) and non-controlling interests of $76.9 million, for the 12 months ended 30 September 2013. This included a net $17.2 million charge, after tax, relating to non-recurring items, which included $15.1m of costs associated with the acquisition and integration of the Alesco businesses, a $10.2m non-cash impairment charge (DuluxGroup share) against the DGL Camel joint venture in China and an $8.1 million gain from the sale of a site following a reconfiguration of our warehouse and logistics footprint in Western Australia.

Excluding these non-recurring items, NPAT was $94.1 million. This is an increase of 18.2% over the 2012 equivalent NPAT of $79.6 million, and exceeds the guidance provided at the 2013 first half.

Earnings before interest and tax (EBIT) decreased by 3.8% to $127.2 million. Excluding non-recurring items, EBIT increased by 24.7% to $156.2 million, with heritage DuluxGroup (i.e. excluding the former Alesco businesses) EBIT increasing 7.9% and the remainder of the growth due to the addition of the former Alesco businesses for ten months.

Sales revenue increased by $416.8 million or 39%.  Heritage DuluxGroup businesses grew 5.5% in generally flat markets, due largely to market share gains, with the remainder of the growth due to the addition of the former Alesco businesses.

On a 12 month pro forma basis, the Alesco businesses delivered EBIT of $31.2 million, an increase of 3.7%, on flat sales in generally adverse markets.  This result excludes Robinhood, which has been divested.

The Board has declared a final dividend of 9.5 cents per share, fully franked, taking total dividend for the year to 17.5 cents per share, which represents a 70% payout ratio on NPAT before non-recurring items.

DuluxGroup Managing Director Patrick Houlihan said the result was driven by a particularly strong performance by the heritage DuluxGroup businesses, which outperformed in most segments.

“Our heritage DuluxGroup businesses have continued to grow profitable market share in our core markets, delivering EBIT growth of 7.9%. This is an excellent result given weak market conditions, particularly in Australia,” said Mr Houlihan.

“The new Alesco businesses have made a solid start, with proforma EBIT growth of 3.7%, despite weak markets and our additional investment in marketing and sales capability. We have also delivered Alesco cost synergies ahead of schedule.

“The result has been underpinned by strong cash generation, which has assisted our net debt to EBITDA gearing to reduce from 2.3x at the half, following the acquisition of Alesco in December last year, to 1.95x.”

**Review of Operating Segments**

DuluxGroup’s largest operating segment, Paints Australia, increased sales by 4.8%, despite the Australian decorative paint market being flat in overall volume terms (with second half market growth offsetting a first half decline). Sales growth was driven by profitable share gains and pricing discipline. EBIT increased to $110.4 million, an increase of 9.3% (excluding the flood insurance uplift in 2012).

Paints New Zealand grew sales by 18.3% and EBIT by 40.7%. Sales growth was driven by market growth of 8% and profitable market share gains in both retail and trade channels. EBIT growth was primarily due to the sales growth and fixed cost leverage. Sales and EBIT growth were also assisted by a stronger New Zealand dollar.

Selleys Yates sales increased 3.1% to $252.2 million, largely as a result of market share gains in modestly growing markets. EBIT increased 5.6% to $26.3 million, reflecting sales growth and effective margin and cost control.

Pro forma sales for the Garage Doors and Openers business increased 2% in flat markets that are beginning to show signs of improvement. EBIT declined 2.2%, or $0.4m, to $17.4 million, primarily due to a $0.3m increase in depreciation and amortisation (due to acquisition accounting). The business also invested an additional $1.5m in sales capability and marketing.

Pro forma sales for the Parchem Construction Chemicals and Equipment business increased 1.1% to $121.3 million, while pro forma EBIT increased 6.5% to $8.2 million. Growth in Western Australia and New Zealand was offset by more subdued conditions elsewhere.

Pro forma sales for the Lincoln Sentry cabinet and architectural hardware business declined 2.6%, reflecting subdued activity in renovation and new housing markets. The second half saw revenue growth achieved through market share gains in markets beginning to show modest improvement. EBIT decreased 4.1% to $7.1 million, largely due to a higher depreciation charge (due to acquisition accounting), with EBITDA flat.

DuluxGroup's 'Other Businesses' segment comprised: the DGL Camel joint venture in China and Hong Kong; the Papua New Guinea (PNG) business; the Dulux Powder, Refinish and Industrial Coatings business in Australia and New Zealand; the South East Asian business; and the recently sold Robinhood appliances business which was acquired as part of Alesco. Equity share of EBIT for this segment (excluding Robinhood and non-recurring items) declined 14.3% to $8.4 million, largely due to market softness in PNG.

Non-recurring items within the Other business segment include a $1.1 million (before tax) loss on sale of Robinhood and an impairment charge (non-cash) against the intangible assets relating to our China joint venture. DuluxGroup's equity share of the impairment was $10.2 million (before and after tax). This follows an assessment of the business' performance against expectations and external value benchmarking of similar businessesand represents approximately 50% of the total China goodwill.

"We remain committed to building a profitable business in China over the medium to long term. We continue to re-shape the business to focus on Selleys, Acratex and paint and reduce our focus on the retail woodcare market," said Mr Houlihan.

"Overall this has been a very successful year. To achieve further market share gains and profit growth in our heritage business in generally flat markets was an outstanding result," said Mr Houlihan.

"At the same time we have successfully integrated the new businesses, delivered pro forma EBIT growth and invested for the future in sales capability and marketing".

"The business is very well positioned for ongoing growth."

**Outlook for 2014**

Lead market indicators have generally improved in Australia and remain positive in New Zealand.

Subject to economic conditions, and excluding non-recurring items, we expect 2014 net profit after tax to be higher than the 2013 equivalent of $94.1 million.

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# DuluxGroup Limited results for the financial year ended 30 September 2013

| **Results** [1] | **Year ended 30 September** | | |
|---|---|---|---|
| **A$M** | **2013 Actual** | **2012 Actual** | **% Change** |
| Sales revenue | 1,484.6 | 1,067.8 | 39.0% |
| EBITDA [2] | 159.5 | 155.5 | 2.6% |
| **EBIT** [3] | **127.2** | **132.2** | **(3.8%)** |
| *EBIT before non-recurring items* [4] | *156.2* | *125.3* | *24.7%* |
| Net interest expense | (27.6) | (21.4) | (29.0%) |
| Tax expense | (34.0) | (24.5) | (38.8%) |
| Non-controlling interests | 11.4 | 3.2 | 256.3% |
| **Net profit after tax (NPAT)** [5] | **76.9** | **89.5** | **(14.1%)** |
| *NPAT before non-recurring items* [6] | *94.1* | *79.6* | *18.2%* |
| Operating cash flow | 118.2 | 116.5 | 1.5% |
| *Operating cash flow before non-recurring items* [7] | *133.8* | *101.7* | *31.6%* |
| Net debt [8] (closing) | 388.7 | 230.3 | (68.8%) |
| Net debt to EBITDA [9] | 1.95 | 1.55 | (25.8%) |
| Diluted earnings per ordinary share (EPS) (cents) | 20.6 | 24.3 | (15.2%) |
| *Diluted EPS before non-recurring items (cents)* | *25.2* | *21.6* | *16.7%* |
| Final dividend per share (cents) | 9.5 | 7.5 | 26.7% |
| Total dividend per share (cents) | 17.5 | 15.0 | 16.7% |

## Result Summary

- **Sales revenue** of $1,484.6M increased by $416.8M (+39.0%) on the prior year corresponding period ('pcp'). Of this sales growth, $358.5M relates to ten months' sales from the Alesco Corporation Limited (Alesco) businesses acquired in December 2012. Excluding this amount, sales from the heritage DuluxGroup businesses (heritage DuluxGroup) grew 5.5%, driven by strong performance in subdued markets.

- **EBIT** [3] of $127.2M, decreased by 3.8%. Excluding non-recurring items, EBIT increased by $30.9M (+24.7%) on the pcp. Heritage DuluxGroup EBIT increased by 7.9%, largely due to revenue growth, with the remainder due to the addition of the Alesco businesses for ten months.

- **Net profit after tax (NPAT)** [5] was $76.9M, a decrease of 14.1%. NPAT before non-recurring items [6] was $94.1M, an increase of 18.2% over the pcp equivalent of $79.6M.

- **Operating cash flow before non-recurring items** [7] of $133.8M increased by $32.2M with earnings growth before non-recurring items the key driver, including the contribution from Alesco.

- **Net debt to EBITDA** [8,9] ended the year at 1.95 times, which represents an improvement from 2.3 times at half year, due to strong cash flow in the second half. This brings the ratio to below our post Alesco objective of 2.0 times.

Note: Numbers in this profit report are subject to rounding. nm = not meaningful.
Footnote references for this page are located on page 2.

# Result Summary

Sales and EBIT for the period have three main components:

- Heritage DuluxGroup, which relates to the DuluxGroup businesses before the addition of the Alesco businesses;
- Alesco, being the result for the Alesco businesses, which are only included in the financial results from December 2012 (i.e. ten months); and
- Non-recurring items (refer following page for detail).

The split of sales and EBIT between these components is detailed below. NPAT is split between continuing business and non-recurring items.

| Components of Sales, EBIT and NPAT | Year ended 30 September | | |
|---|---|---|---|
| A$M | 2013 Actual | 2012 Actual | % Change |
| **Sales Revenue** | | | |
| Heritage DuluxGroup | 1,126.1 | 1,067.8 | 5.5% |
| Alesco (10 mths in 2013) | 358.5 | - | |
| **Total** | **1,484.6** | **1,067.8** | 39.0% |
| **EBIT** | | | |
| Heritage DuluxGroup | 135.2 | 125.3 | 7.9% |
| Alesco (10 mths in 2013) | 21.0 | - | |
| Non-recurring items | (29.0) | 7.0 | |
| **Total** | **127.2** | **132.2** | (3.8%) |
| **NPAT** [5] | | | |
| NPAT before non-recurring items | 94.1 | 79.6 | 18.2% |
| Non-recurring items | (17.2) | 9.9 | |
| **Total** | **76.9** | **89.5** | (14.1%) |

## Proforma Results for Alesco Businesses

Given that the statutory results include only ten months of operating performance for the Alesco businesses in the current period, **proforma** results for 2013 and 2012 are presented below to provide 12 months' operating performance and a prior year comparison. The figures are based on unaudited management accounts and exclude non-recurring items.

| Proforma Results - Alesco (excl. Robinhood) | Year ended 30 September | | |
|---|---|---|---|
| A$M | 2013 Proforma | 2012 Proforma | % Change |
| Sales | 428.9 | 428.4 | 0.1% |
| EBIT | 31.2 | 30.1 | 3.7% |

## Sale of Robinhood

The Robinhood business was divested in September 2013. The business was loss-making during the year (refer 'Other Businesses' segment performance). Given this, and given Robinhood was classified as 'non-core' in March 2013, we have excluded it from the proforma analysis above and throughout this report, to enable like for like performance comparisons for the remaining Alesco businesses. The loss on sale has been included as a non-recurring item, per page 16.

1. Other than as indicated in subsequent footnotes, the financial information contained in this document is directly extracted or calculated from the Financial Statements included in the Appendix 4E which has been subject to audit.
2. EBITDA – represents 'profit from operations' plus 'depreciation and amortisation expense' per Appendix 4E.
3. EBIT – the equivalent of 'Profit from operations' per Appendix 4E.
4. EBIT before non-recurring items – represents 'profit from operations', excluding the non-recurring items outlined on page 16. Directors believe that the result excluding these items provides a better basis for comparison from period to period.
5. Net profit after tax (NPAT) – represents 'Profit for the year attributable to ordinary shareholders of DuluxGroup Limited'.
6. NPAT before non-recurring items – represents NPAT, excluding the non-recurring items per page 16. Directors believe that the result excluding these items provides a better basis for comparison from period to period.
7. Operating cash flow before non-recurring items – the equivalent of 'Net cash inflow from operating activities' per Appendix 4E, less the cash component of the non-recurring items outlined on page 16.
8. Net debt – represents 'interest bearing liabilities' less 'cash and cash equivalents'.
9. Net debt to EBITDA – is calculated by taking closing net debt as a percentage of EBITDA before non-recurring items. For 2013, this has been calculated on a proforma basis (i.e. taking a full 12 months EBITDA from the Alesco businesses).

# Result Summary

## Key Drivers of the Result

For Heritage DuluxGroup:

- Sales growth of $58.3M (+5.5%). Continued outperformance in core markets. Driven by profitable market share gains in weak but improving markets in Australia, market growth, share gains and positive foreign exchange translation in New Zealand, partly offset by market weakness in PNG; and
- EBIT growth of $9.9M (+7.9%). Flow through of the sales growth plus margin improvement due to disciplined cost control, some input cost relief from the highs of 2012, offset by an increase in Corporate costs (refer later).

For Alesco (on a proforma basis excluding Robinhood):

- Proforma sales were in line with the pcp (+0.1%), in weak but improving markets, driven by modest share gains; and
- Proforma EBIT improved $1.1M (+3.7%), due to the benefits flowing from cost improvement programs and faster achievement of corporate cost synergies, and despite additional investment in marketing and sales.

## Non-recurring Items

Non-recurring items for 2013 (a net cost) and 2012 (a net gain) are detailed later in this report. The major items are:

**2013: Adverse movement of $29.0M pre-tax ($20.7M DuluxGroup share); $17.2M post-tax**

- The profit on sale of the O'Connor site in Western Australia following a reconfiguration of DuluxGroup's state warehouse footprint ($8.1M pre-tax);
- A non-cash impairment charge of $18.5M ($10.2M DuluxGroup equity share) relating to our investment in China. This impairment largely reflects continued soft trading performance for this business (refer later); and
- Alesco acquisition related costs: transaction and integration costs totalling $15.9M (pre-tax), purchase price allocation (PPA) adjustments of $1.7M (pre-tax) and a loss on sale of Robinhood of $1.1M (pre-tax).

**2012: Favourable movement of $7.0M pre-tax; $9.9M post-tax**

- An insurance uplift (gain) of $7.7M pre tax, which refers to the difference between insurance income and flood-related profit and loss expenses;
- Alesco acquisition related items: transaction costs totalling $3.6M (pre-tax), estimated interest of $1.8M (pre-tax) on the capital outlay to acquire the initial 19.96% shareholding in Alesco and dividend income of $2.8M relating to the fully franked dividend received from DuluxGroup's 19.96% shareholding in Alesco; and
- A tax consolidation benefit of $6.3M (post-tax), which relates to the tax effect of recognising a deferred tax asset on the formation of the Australian tax consolidated group upon demerger.

## Other Items

**Net interest expense** [1] of $27.6M reflects an average cost of debt of 5.9%. Interest expense was $6.2M higher than the pcp largely due to the increase in debt associated with the acquisition of Alesco, partly offset by lower prevailing interest rates.

**Income tax expense** of $34.0M. Excluding non-recurring items, the effective tax rate was 29.2%, in line with our expected range of 29-30%.

**Final dividend** of 9.5 cents per share fully franked, which represents a 70.1% payout ratio based on NPAT before non-recurring items.

1. Net interest expense – represents 'net finance costs' per Appendix 4E.

# Result Summary

## Segment revenue and EBIT – blended proforma basis

The following table shows segment sales and EBIT results before non-recurring items. Heritage DuluxGroup results are shown on an **actual** basis and Alesco results on a **proforma** basis, excluding Robinhood. These are discussed further later in this report.

| | Year ended 30 September | | |
|---|---|---|---|
| **A$M** | **2013 Actual/ Proforma** | **2012 Actual/ Proforma** | **% Change** |
| **Sales revenue** | | | |
| Paints Australia | 643.1 | 613.9 | 4.8% |
| Paints New Zealand | 85.5 | 72.3 | 18.3% |
| Selleys Yates | 252.2 | 244.6 | 3.1% |
| Other businesses (Heritage DuluxGroup only) | 162.6 | 154.6 | 5.2% |
| Eliminations | (17.4) | (17.6) | 1.1% |
| **Heritage DuluxGroup** | **1,126.1** | **1,067.8** | **5.5%** |
| Garage Doors & Openers (proforma) | 160.5 | 157.3 | 2.0% |
| Parchem (proforma) | 121.3 | 120.0 | 1.1% |
| Lincoln Sentry (proforma) | 147.1 | 151.0 | (2.6%) |
| **Proforma Alesco (excl. Robinhood)** | **428.9** | **428.4** | **0.1%** |
| **Total Proforma sales (excl. Robinhood)** | **1,555.0** | **1,496.2** | **3.9%** |
| **EBIT** | | | |
| Paints Australia | 110.4 | 101.0 | 9.3% |
| Paints New Zealand | 11.4 | 8.1 | 40.7% |
| Selleys Yates | 26.3 | 24.9 | 5.6% |
| Other businesses (Heritage DuluxGroup only) | 5.7 | 6.7 | (14.9%) |
| Corporate - DuluxGroup | (18.6) | (15.4) | (20.8%) |
| **Heritage DuluxGroup** | **135.2** | **125.3** | **7.9%** |
| Garage Doors & Openers (proforma) | 17.4 | 17.8 | (2.2%) |
| Parchem (proforma) | 8.2 | 7.7 | 6.5% |
| Lincoln Sentry (proforma) | 7.1 | 7.4 | (4.1%) |
| Corporate - Alesco (proforma) | (1.6) | (2.8) | 42.9% |
| **Proforma Alesco (excl. Robinhood)** | **31.2** | **30.1** | **3.7%** |
| **Total Proforma EBIT (pre non-recurring items & excl. Robinhood)** | **166.3** | **155.4** | **7.0%** |

# Balance Sheet

| Balance Sheet<br>A$M | Sept<br>2013<br>Actual | Sept<br>2012<br>Actual |
|---|---|---|
| Inventories | 195.8 | 129.2 |
| Trade debtors | 221.9 | 154.7 |
| Trade creditors | (193.3) | (151.4) |
| Total trade working capital [1] | 224.4 | 132.5 |
| Non trade debtors [4] | 15.3 | 11.7 |
| Tax balances (net) | 16.2 | 28.1 |
| Property, plant & equipment | 263.8 | 199.1 |
| Intangible assets | 235.8 | 96.8 |
| Investments | 4.7 | 40.6 |
| Non trade creditors [5] | (55.1) | (34.8) |
| Defined benefit fund liability | (8.3) | (20.9) |
| Provisions (excluding tax) | (77.4) | (39.9) |
| Net debt | (388.7) | (230.3) |
| Net other assets | 0.3 | - |
| **Net Assets** | **231.0** | **182.9** |
| Total equity attributable to ordinary shareholders of DuluxGroup Limited | 226.3 | 169.9 |
| Non-controlling interest in controlled entities | 4.7 | 13.0 |
| **Total Shareholders' Equity** | **231.0** | **182.9** |

Given the significant impact the Alesco acquisition has had on the Group's balance sheet, movement analysis has been conducted on significant underlying movements, rather than headline movements.

- **Trade working capital** [1] (TWC) increased by $91.9M from September 2012, predominantly due to the acquisition of Alesco. The movement in TWC for heritage DuluxGroup businesses was an increase of $7.6M, which reflected the increased level of sales for the year, and resulted in the year end percentage to sales remaining at 12.4%.
- **Rolling TWC to rolling sales** [2, 3] increased from 13.3% in September 2012 to 15.0% (proforma), driven by the addition of Alesco, which operates at over 20%. Heritage DuluxGroup rolling TWC to rolling sales improved to 12.8%.
- **Intangible assets in total** increased by $139.0M from September 2012, largely due to the acquisition of Alesco, partly offset by the write down in DGL Camel due to impairment.
- **Investments** reduced by $35.9M from September 2012, as the initial 19.96% interest in Alesco acquired on 30 April 2012 was reversed upon completion of the Alesco acquisition.
- The **defined benefit fund liability** decreased by $12.6M from September 2012 due to actuarial reassessment of the fund liability at September 2013, as investment returns improved.
- **Provisions** excluding tax have increased by $37.5M mainly due to Alesco provisions acquired.
- **Net debt** increased due to the acquisition of Alesco, partly offset by the strong cash flow generated throughout the year. Please refer to the cash flow commentary for further detail.

1. Trade working capital (TWC) – 'trade receivables' plus 'inventory', less 'trade payables', per Appendix 4E.
2. Rolling TWC – the 12 month rolling average of month end TWC balances.
3. Rolling TWC to rolling sales – calculated as the rolling TWC (above) divided by the most recent 12 months sales revenue. This figure is not directly extracted from the Appendix 4E.
4. Non trade debtors – represents the 'other receivables' portion of 'trade and other receivables', and 'other assets' per Appendix 4E.
5. Non trade creditors – represents the 'other payables' portion of 'trade and other payables', per Appendix 4E.

## Cash Flow

| Statement of Cash Flows | Year ended 30 September | | |
|---|---|---|---|
| **A$M** | **2013 Actual** | **2012 Actual** | **% Change** |
| **Net operating cash flows** | | | |
| EBIT | 127.2 | 132.2 | (3.8%) |
| *less*: Profit on sale of major assets (investing) | (8.2) | - | nm |
| *add*: Loss on sale of Robinhood (investing) | 1.1 | - | nm |
| *add*: Depreciation | 26.6 | 21.5 | 23.7% |
| *add*: Amortisation | 5.7 | 1.8 | 216.7% |
| EBITDA | 152.4 | 155.5 | (2.0%) |
| Trade working capital movement | (1.9) | 6.6 | nm |
| Non trade working capital movement | (5.3) | 0.6 | nm |
| Other non cash | 26.5 | (1.5) | nm |
| Income taxes paid | (30.6) | (27.5) | (11.3%) |
| Net interest paid | (23.1) | (17.2) | (34.3%) |
| **Operating cash flow** | **118.2** | **116.5** | 1.5% |
| **Investing cash flow** | **(161.6)** | **(64.0)** | nm |
| **Financing cash flow before debt movement** | **(37.2)** | **(57.0)** | 34.7% |
| **Total cash flow before debt movement** | **(80.7)** | **(4.5)** | nm |
| **Cash conversion** [1] | **84%** | **86%** | |

The operating cash flow in the current year was adversely impacted by non-recurring items relating to the acquisition of Alesco (transaction and integration costs). In 2012, the operating cash flow was positively impacted by insurance receipts relating to the Queensland flood (refer to the March 2012 Profit Report for further details), offset partly by transaction costs relating to the Alesco acquisition.

Other non cash includes DGL Camel impairment ($18.5M), share based payment expense ($2.4M) and non-recurring PPA items ($1.7M).

The table below isolates the non-recurring items in 2013 and 2012 and shows that operating cash flow before non-recurring items increased for the period.

| Operating Cash Flow | Year ended 30 September | | |
|---|---|---|---|
| **A$M** | **2013 Actual** | **2012 Actual** | **% Change** |
| **Cash flow before non-recurring items** | **133.8** | **101.7** | 31.6% |
| Non-recurring Alesco costs | (15.7) | - | |
| Non-recurring flood impacts | - | 14.8 | |
| **Operating cash flow** | **118.2** | **116.5** | 1.5% |

Key drivers of the remainder of the cash flow are below:

- Investing cash outflows increased by $97.6M, due largely to the acquisition of Alesco in December 2012, offset partly by the disposal of the O'Connor site and Robinhood business, which collectively generated $12.7M; and
- Financing cash outflows decreased by $19.8M as share capital was issued in 2013 to satisfy the Dividend Reinvestment Plan for both final and interim dividends paid, whereas in 2012 shares were bought back on market for the final dividend of 2011 (paid in 2012).

Refer to the Appendix for a full cash flow.

1. Cash conversion is calculated as adjusted EBITDA, add/less movement in working capital and other non cash, less minor capital spend (excluding flood related capital spend), as a percentage of adjusted EBITDA. Adjusted EBITDA excludes non-recurring items.

## Segment Commentary – Paints Australia

**EBIT of $110.4M, up 9.3% (before prior year flood insurance uplift).**

**Strong revenue and profit growth, outperforming in a flat market.**

| **Paints Australia** | **Year ended 30 September** | | |
|---|---|---|---|
| **A$M** | **2013 Actual** | **2012 Actual** | **% Change** |
| Sales revenue | 643.1 | 613.9 | 4.8% |
| EBITDA before flood insurance uplift | 122.1 | 112.9 | 8.1% |
| EBIT | 110.4 | 108.8 | 1.5% |
| EBIT before flood insurance uplift | 110.4 | 101.0 | 9.3% |
| *EBIT % Sales ** | *17.2%* | *16.5%* | |

** EBIT % Sales for 2012 has been calculated by taking the EBIT before insurance uplift, divided by Sales revenue. This provides a more accurate assessment of underlying margin performance because it removes the distortion effect of flood insurance accounting.*

**Sales revenue up $29.2M (+4.8%)**

- The Australian decorative paint market was flat in volume terms. The trade channel declined over the year though showed marginal growth in the second half, while the retail channel experienced growth as market drivers improved and hardware retailer investment continued.
- Revenue growth was driven by continued profitable share gains in the decorative paint businesses and pricing discipline.

**EBIT increase of $9.4M (+9.3%) before flood insurance uplift in 2012**

- Margins improved due to good cost control, a full year of benefits from 2012 internal efficiency programs and some short term input cost relief.
- This earnings growth was achieved while the business continued its investment in marketing and future growth initiatives.

# Segment Commentary – Paints New Zealand

**Paints New Zealand EBIT of $11.4M, up 40.7%.**

**A strong result driven by robust market conditions and share gains.**

| Paints New Zealand | Year ended 30 September | | |
|---|---|---|---|
| A$M | 2013 Actual | 2012 Actual | % Change |
| Sales revenue | 85.5 | 72.3 | 18.3% |
| EBITDA | 14.0 | 10.6 | 32.1% |
| EBIT | 11.4 | 8.1 | 40.7% |
| *EBIT % Sales* | *13.3%* | *11.2%* | |

**Sales revenue up $13.2M (+18.3%)**

- The New Zealand decorative paint market grew by approximately 8% during the year, driven by increased building activity, renovation activity, housing churn and Christchurch reconstruction related activity. Excluding the impact of Christchurch activity, the market grew by approximately 5%.
- Profitable market share gains were achieved in both Retail and Trade businesses.
- Approximately 6.5% of the revenue growth was attributable to a stronger New Zealand dollar.

**EBIT growth of $3.3M (+40.7%)**

- EBIT margin expansion due to fixed cost leverage and some short term input cost relief, underpinned by pricing discipline.
- Approximately 6% of the EBIT growth was attributable to a stronger New Zealand dollar.

# Segment Commentary – Selleys Yates

**Selleys Yates EBIT of $26.3M, up 5.6%.**

**Growth driven by improvement in Selleys, with Yates also improving in the second half.**

| **Selleys Yates** | **Year ended 30 September** | | |
|---|---|---|---|
| **A$M** | **2013 Actual** | **2012 Actual** | **% Change** |
| Sales revenue | 252.2 | 244.6 | 3.1% |
| EBITDA | 29.4 | 28.5 | 3.2% |
| EBIT | 26.3 | 24.9 | 5.6% |
| *EBIT % Sales* | *10.4%* | *10.2%* | |

**Sales revenue up $7.6M (+3.1%)**

- Selleys sales improved due to both market and share growth. Growth in New Zealand was also boosted on translation by the strong New Zealand dollar.
- Yates sales grew in modestly growing markets.

**EBIT growth of $1.4M (+5.6%)**

- In the second half, both Selleys and Yates grew profit over the pcp.
- The result was driven by the sales growth, together with margin and cost control.

# Segment Commentary – Garage Doors and Openers

**Garage Doors and Openers proforma EBIT of $17.4M, down 2.2%.**

**Revenue improving in a flat market; business investing in a market showing the first signs of recovery.**

| **Garage Doors & Openers** | **Year ended 30 September** | | |
|---|---|---|---|
| **A$M** | **2013** | **2012** | **% Change** |
| **Statutory (10 months in 2013)** | | | |
| Sales revenue | 130.4 | - | |
| EBITDA | 17.8 | - | |
| EBIT | 12.3 | - | |
| *EBIT % Sales* | *9.4%* | - | |
| **Proforma (12 months in 2013 & 2012)** | | | |
| Sales revenue | 160.5 | 157.3 | 2.0% |
| EBITDA | 24.0 | 24.1 | (0.4%) |
| EBIT | 17.4 | 17.8 | (2.2%) |
| *EBIT % Sales* | *10.8%* | *11.3%* | |

**Proforma sales revenue up $3.2M (+2.0%)**

- Market growth in New Zealand was offset by an Australian market that retreated slightly.
- Share outcomes were mildly positive, with largest gains in the openers business, driven by a strong service offering, and B&D Australia in its core residential renovations market through its strong dealer network.

**Proforma EBIT decline of $0.4M (-2.2%)**

- EBITDA was marginally below prior year.
- Costs were well controlled, enabling an increased investment of approximately $1.5M in sales capability and marketing.
- Both current and prior year were favourably impacted by net insurance gains resulting from the Christchurch earthquake, of A$0.7M and $0.5M respectively.
- Depreciation & amortisation increased by $0.3M predominantly as a result of acquisition accounting impacts.

## Segment Commentary – Parchem

**Parchem proforma EBIT of $8.2M, up 6.5%.**

**Solid result given a challenging Australian market.**

| Parchem | Year ended 30 September | | |
|---|---|---|---|
| **A$M** | **2013** | **2012** | **% Change** |
| **Statutory (10 months in 2013)** | | | |
| Sales revenue | 97.5 | - | |
| EBITDA | 7.6 | - | |
| EBIT | 5.5 | - | |
| *EBIT % Sales* | *5.6%* | - | |
| **Proforma (12 months in 2013 & 2012)** | | | |
| Sales revenue | 121.3 | 120.0 | 1.1% |
| EBITDA | 10.8 | 10.5 | 2.9% |
| EBIT | 8.2 | 7.7 | 6.5% |
| *EBIT % Sales* | *6.8%* | *6.4%* | |

**Proforma sales revenue up $1.3M (+1.1%)**

- The Australian core construction market declined slightly, with growth in WA offset by subdued conditions elsewhere. The New Zealand market experienced solid growth, underpinned by Christchurch rebuilding activity.
- Core Construction Chemicals revenue performed strongly, growing approximately 7%. Decorative Concrete was flat and Equipment was down 11%. These latter two businesses represent less than half of Parchem's revenue.

**Proforma EBIT up $0.5M (+6.5%)**

- EBITDA grew marginally, driven by procurement initiatives and tight control of costs, despite higher trade store costs following prior year store refurbishments.
- Depreciation decreased $0.2M as a result of acquisition accounting impacts.

# Segment Commentary – Lincoln Sentry

**Lincoln Sentry proforma EBIT of $7.1M, down 4.1%.**

**Flat EBITDA, second half revenue growth.**

| Lincoln Sentry | Year ended 30 September | | |
|---|---|---|---|
| **A$M** | **2013** | **2012** | **% Change** |
| **Statutory (10 months in 2013)** | | | |
| Sales revenue | 117.6 | - | |
| EBITDA | 5.9 | - | |
| EBIT | 4.1 | - | |
| *EBIT % Sales* | *3.5%* | - | |
| **Proforma (12 months in 2013 & 2012)** | | | |
| Sales revenue | 147.1 | 151.0 | (2.6%) |
| EBITDA | 9.2 | 9.2 | 0.0% |
| EBIT | 7.1 | 7.4 | (4.1%) |
| *EBIT % Sales* | *4.8%* | *4.9%* | |

**Proforma sales revenue down $3.9M (-2.6%)**

- Whilst full year revenues were adversely impacted by continued subdued levels in the key renovation and new housing markets, 2.8% revenue growth was achieved in the second half of the year, driven by modest market improvement and market share gains.
- A range of product, sales and distribution strategy initiatives drove these share gains.

**Proforma EBIT down $0.3M (-4.1%)**

- EBITDA was flat, due to lower fixed costs driven by the April 2012 cost reduction program and ongoing cost discipline, and despite margin pressure due to a weaker Australian dollar against the Euro and US dollar, and increased investment in marketing.
- Depreciation and amortisation increased $0.2M due to acquisition accounting impacts.

## Segment Commentary – Other businesses

**EBIT (equity share excluding Robinhood and non-recurring items) down 14.3%.**

**Decline due to market softness in PNG.**

| Other businesses | Year ended 30 September | | |
|---|---|---|---|
| A$M | 2013 | 2012 | % Change |
| **Statutory (includes 10 months of Robinhood in 2013)** | | | |
| Sales revenue | 175.7 | 154.6 | 13.6% |
| EBITDA | (10.8) | 11.4 | nm |
| EBIT | (15.6) | 6.7 | nm |
| *EBIT % Sales* | *(8.9%)* | *4.3%* | |
| Equity share of EBIT [1] | (4.6) | 9.8 | nm |
| **Excluding Robinhood and China impairment** | | | |
| Sales revenue | 162.6 | 154.6 | 5.2% |
| EBITDA | 10.3 | 11.4 | (9.6%) |
| EBIT | 5.7 | 6.7 | (14.9%) |
| *EBIT % Sales* | *3.5%* | *4.3%* | |
| Equity share of EBIT [1] | 8.4 | 9.8 | (14.3%) |
| **Robinhood and China impairment** | | | |
| Robinhood EBIT | (1.7) | - | nm |
| Robinhood loss on sale | (1.1) | - | nm |
| China impairment - 100% | (18.5) | - | nm |
| China impairment - equity share | (10.2) | - | nm |

The Other businesses segment consists of DGL Camel in China and Hong Kong, the Papua New Guinea business, the Dulux Powder, Refinish and Industrial Coatings Australia and New Zealand business (Powder Coatings), the South East Asian business, and the recently disposed of Robinhood appliance business (acquired as part of Alesco).

- Statutory results for this segment were impacted by the inclusion of ten months of results from Robinhood, which was disposed of on 16th September 2013, and the recognition of an impairment expense in relation to the intangible assets of the DGL Camel business.
- **DGL Camel** revenue grew $6.8M, partly due to the December 2011 timing of the DGL Camel merger, with 2013 being the first full year, and $4.8M of foreign exchange benefits. Underlying revenue performance was adversely impacted by market contraction in both Mainland China and Hong Kong markets. Earnings for DGL Camel improved on the pcp, partly due to the timing of the DGL Camel merger, and partly due to improved margins driven by the localisation of Selleys production and reformulation savings.
- **Powder Coatings** revenue grew moderately. The relatively weak Manufacturing and Construction markets in Australia were more than offset by strong performances from its New Zealand Powder and Industrial arms. Powder Coatings EBIT increased, led by a strong result in New Zealand.
- Sales in **Papua New Guinea** were lower than the pcp due to a slowdown in the local economy as the construction phase of the ExxonMobil LNG project nears completion. Papua New Guinea EBIT also declined due to lower sales, combined with the impact of a significant devaluation of the local currency (Kina) in the second half of the year.

1. Equity share represents the Group's share in the Other businesses segment, after accounting for the 49% non-controlling interest in DGL Camel International.

# Segment Commentary – Other businesses

**China Impairment**

An impairment charge has been recognised against the intangible assets relating to our China business. DuluxGroup's equity share [1] of this charge is $10.2M.

The impairment represents around 50% of DuluxGroup's share of the goodwill that arose from the original Opel investment in 2008 and the subsequent merger with Camel in 2011. Following this impairment, DuluxGroup retains goodwill associated with DGL Camel of $9.9M.

The impairment follows an assessment of business performance against expectations, together with external benchmarking of fair value against similar businesses. Considerations leading to the impairment charge are as follows:

- Despite an improved profit outcome in 2013, the financial performance of the business continues to be below expectations, with ongoing weakness in the retail woodcare market a key driver;
- Our assessment at the March half year left very little headroom against internal forecasts – these forecasts were not met in the second half; and
- Our assessment of possible fair value (based on transaction multiples for similar businesses) was revisited to take account of recent observable market based information.

Since the acquisition of the Opel woodcare business in 2008, DuluxGroup has been focussed on building sustainable niche positions in Selleys, Acratex and paint. The merger with Camel in 2011 assisted in providing greater product breadth, a stronger position in southern China and Hong Kong, synergy benefits and deeper local knowledge. DuluxGroup remains committed to the China business, and continues to focus on growth opportunities in Selleys, Acratex and decorative paint.

Progress was made during the year in Selleys in particular, establishing successful local manufacturing of Liquid Nails products for both Hong Kong and China (which replaces product that was previously imported from Australia).

1. Equity share represents the Group's share in the Other businesses segment, after accounting for the 49% non-controlling interest in DGL Camel International.

## Segment Commentary – Corporate

**Proforma Corporate costs of $20.2M, up 11.0%.**

**Increases in Heritage DuluxGroup costs and favourable non-recurring items in the prior period, partially offset by synergies in Alesco.**

| Corporate Costs | Year ended 30 September | | |
|---|---|---|---|
| A$M | 2013 Actual/ Proforma | 2012 Actual/ Proforma | % Change |
| Heritage DuluxGroup - Actual | (18.6) | (15.4) | (20.8%) |
| Alesco - Proforma | (1.6) | (2.8) | 42.9% |
| **Total Corporate costs** | **(20.2)** | **(18.2)** | (11.0%) |

**Heritage DuluxGroup costs up 20.8%**

- Increased to $18.6M, broadly in line with previous guidance of $18M, due to higher incentive accruals as a result of the strong operating performance of the Group and an increase in business development resources. The prior period also included a foreign exchange gain of $1.1M.
- Changes in accounting standards impacting the movements in DuluxGroup's defined benefit superannuation scheme take effect in 2014 and will also be applied retrospectively to the 2013 year. This will result in a further charge of ~ $2.8M to the 2013 comparative in results for 2014. The fringe benefits tax relating to any debt forgiveness associated with the pending close-out of the 2010 Long Term Incentive Scheme will be in addition to this (up to $1.5M). Aside from these items, Corporate costs are expected to increase broadly in line with inflation.

**Proforma Alesco costs down 42.9%**

- The prior year figure of $2.8M included some favourable non-recurring items and largely excluded stranded costs following the divestiture by Alesco of Parbury and Dekorform in March 2012. Given this, we estimated (per our March 2013 update) that baseline Alesco Corporate costs were approximately $7M.
- The 2013 result of $1.6M largely reflects the realisation of synergies against this $7M base.
- We remain comfortable with our prior guidance of $9M of Alesco cost synergies, the majority of which will be realised by the end of 2014.
- Alesco Corporate costs will not be separately identified from 2014 onwards.

## Non-recurring items

The non-recurring items are detailed below:

| Non-recurring items | Year ended 30 September | |
|---|---|---|
| **A$M** | **EBIT** | **NPAT** |
| **2013** | | |
| Non-recurring Alesco PPA adjustments | (1.7) | (1.2) |
| Alesco transaction costs | (6.3) | (5.9) |
| Alesco integration costs | (9.6) | (6.7) |
| Robinhood loss on sale | (1.1) | (1.3) |
| Gain on sale of O'Connor site, net of disposal costs | 8.1 | 8.1 |
| China impairment - equity share | (10.2) | (10.2) |
| China impairment - non-controlling interests share | (8.3) | - |
| **Total** | **(29.0)** | **(17.2)** |
| **Total - equity share** | **(20.7)** | **(17.2)** |
| **2012** | | |
| Alesco transaction costs | (3.6) | (3.3) |
| Alesco dividend | 2.8 | 2.8 |
| Interest on Alesco stake (est.) | - | (1.3) |
| Insurance uplift | 7.7 | 5.4 |
| Tax consolidation adjustment | - | 6.3 |
| **Total** | **7.0** | **9.9** |

**Non-recurring Alesco PPA adjustments** refer to the non-recurring component of the Purchase Price Allocation adjustments that have been made as part of the Alesco acquisition accounting process. These primarily relate to the fair value adjustment to finished goods inventory sold in the period.

**Alesco transaction costs** refer to the transaction costs associated with the acquisition of Alesco. These costs total $9.9M over 2012 and 2013, within the previously supplied guidance of $9M to $10M. No further costs will be incurred.

**Alesco integration costs** refer to the costs associated with integrating the Alesco businesses into DuluxGroup. Further integration costs ($4M - $5M) are anticipated to be spent during 2014. Total integration costs will be below our previously supplied guidance of up to $15M.

The **Robinhood loss on sale** largely relates to adviser costs, site exit costs and redundancy payments associated with the sale of this business.

The **gain on sale of the O'Connor site** refers to the profit made upon disposal of the O'Connor site in Western Australia.

The **China impairment** relates to the impairment charge against the intangible assets of the DGL Camel business.

**Alesco dividend** in 2012 refers to the fully franked dividend income from DuluxGroup's 19.96% shareholding in Alesco, prior to the full acquisition.

**Interest on Alesco stake** in 2012 refers to the estimated incremental interest expense due to the $37.6M capital outlay in May 2012 to acquire the Alesco shareholding.

The **insurance uplift** amount in 2012 relates to the last of the insurance proceeds following the 2011 flood at the decorative paint manufacturing site in Rocklea, Queensland. The figure refers to the difference between insurance income of $15.0M and the flood-related profit and loss expenses of $7.3M. There was no impact relating to this item in the current period.

**Tax consolidation adjustment** refers to the tax effect of recognising a deferred tax asset (associated with the revaluation of certain non-current assets for tax purposes) on the formation of the Australian tax consolidated group upon demerger.

# Outlook

Subject to economic conditions and excluding non-recurring items, we expect 2014 net profit after tax to be higher than 2013 net profit after tax, excluding non-recurring items, of $94.1M.

Lead market indicators have improved over the last half in Australia and there is increasing evidence that new housing construction will improve.

Our expectation is that most of our markets in Australia will show modest growth in 2014. Note that most of DuluxGroup's new residential housing business occurs at the tail end of construction, hence a flow through of any recovery to DuluxGroup from this sector is still some time away. We expect market growth to continue in New Zealand. We are yet to see evidence of market growth in our main product areas in China and for PNG, pressure experienced in the second half of 2013 may continue.

On the whole, input cost increases appear to be manageable, with pressure on key paint raw materials possible in the second half of 2014. Any significant devaluation of the Australian dollar will further impact second half input costs. However, DuluxGroup aims to maintain operating margins by effectively managing input cost variations.

DuluxGroup has a history of outperforming the markets in which it operates, whilst maintaining profitability, and will continue to seek to do this across all businesses. Additionally, results in 2014 will include a full year's contribution from Alesco.

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# Appendix

## Cash Flow

| Statement of Cash Flows | Year ended 30 September | | |
|---|---|---|---|
| **A$M** | **2013 Actual** | **2012 Actual** | **% Change** |
| **Net operating cash flows** | | | |
| EBIT | 127.2 | 132.2 | (3.8%) |
| *less*: Profit on sale of major assets (investing) | (8.2) | - | nm |
| *add*: Loss on sale of Robinhood (investing) | 1.1 | - | nm |
| *add*: Depreciation | 26.6 | 21.5 | 23.7% |
| *add*: Amortisation | 5.7 | 1.8 | 216.7% |
| EBITDA | 152.4 | 155.5 | (2.0%) |
| Trade working capital movement | (1.9) | 6.6 | nm |
| Non trade working capital movement | (5.3) | 0.6 | nm |
| Other non cash | 26.5 | (1.5) | nm |
| Income taxes paid | (30.6) | (27.5) | (11.3%) |
| Net interest paid | (23.1) | (17.2) | (34.3%) |
| **Operating cash flow** | **118.2** | **116.5** | 1.5% |
| **Net investing cash flows** | | | |
| Capital expenditure [1] | (28.9) | (27.6) | (4.7%) |
| Acquisitions [2] | (145.4) | (39.7) | nm |
| Disposals [3] | 12.5 | 0.2 | nm |
| Dividends received | 0.3 | 3.1 | nm |
| **Investing cash flow** | **(161.6)** | **(64.0)** | nm |
| **Net financing cash flows** | | | |
| Share capital movements | 1.0 | (7.1) | nm |
| Dividends paid | (38.2) | (49.9) | 23.4% |
| **Financing cash flow before debt movement** | **(37.2)** | **(57.0)** | 34.7% |
| **Total cash flow before debt movement** | **(80.7)** | **(4.5)** | nm |

1. Capital expenditure - represents the ‘payments for property, plant and equipment’ and ‘payments for intangible assets’.
2. Acquisitions – represents ‘payments for purchase of businesses and controlled entities, net of cash acquired’ and ‘payments for investment in listed equity securities’.
3. Disposals – represents ‘proceeds from disposal of business’ and ‘proceeds from sale of property, plant and equipment’.