



DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

14 December 2016

2016 AGM – CHAIRMAN’S ADDRESS

Company performance – year in review

Ladies and Gentlemen, this year your company has continued to grow and achieve solid results despite challenging conditions in some markets.

2016 marks DuluxGroup’s sixth consecutive year of underlying net profit growth, since listing as an independent company in July 2010.

The majority of our businesses delivered record profits, however the overall result was impacted by weakness in Papua New Guinea and in the B&D Garage Doors & Openers business. Pat will provide more details about the operational performance shortly.

Dividends and shareholder returns

Underlying earnings per share also grew for the sixth consecutive year, increasing by 4 per cent before non-recurring items to 33.5 cents.

The total dividend for the year was 24 cents, fully franked, a 6.7% increase over the prior year. This represents a 71% payout ratio on net profit after tax and before non-recurring items.

Strategy and growth

DuluxGroup is very well positioned for ongoing profitable growth from a portfolio of market leading businesses.

Our core ANZ Dulux Paints & Coatings and Selleys Sealants & Adhesives businesses account for about 80% of overall business earnings and have gone from strength to strength since our demerger. They are supplemented by profitable, market leading businesses in adjacent home improvement product categories – such as garden care and garage doors – and by our niche offshore positions in paints and Selleys.

Approximately two thirds of Group revenue is drawn from the relatively resilient existing-home improvement market, where iconic and trusted premium brands are strongly supported by consumers and trade professionals.

Continual investment in our premium brands has strengthened our market leading positions, which are reflected in a proven ability to win against larger, global competitors. In the paints segment, we have successfully competed against the world's largest paint company PPG since 2007, the Asian number one Nippon Paints between 2008 and 2010, and against the USA number three Valspar since 2010.

Our Dulux decorative paints business is world class by any standards and has an excellent growth record over recent decades. It is built off the great legacy of having been a key part of the former ICI Dulux world paints business.

The same fundamentals apply to our market leading Selleys and Yates businesses, which also compete with a combination of global and local competitors.

We are by no means complacent about our market-leading positions within and beyond paints & coatings. Our people are motivated by the challenge to keep growing and setting the pace in terms of innovation, marketing and customer service.

In addition to organic growth, we have also invested in new businesses to extend into new product and new end market segments. In assessing acquisitions, we look at whether we can leverage our core capabilities to be the 'natural owner' of the business and generate sustainable growth. In June we acquired the Munns lawn care business, expanding the Yates brand portfolio. The focus is now to generate growth by leveraging Yates' sales, marketing and supply chain capabilities.

More than 90% of our revenue continues to come from Australia and New Zealand – and delivering the sustainable, profitable growth we see in ANZ remains our primary focus. This is complemented by our investment in niche offshore positions in paints and Selleys. We have seen solid growth in Hong Kong and, while market growth in China has slowed, we are positive about the longer term outlook there and the business is targeting growth opportunities in the dominant trade segment of the market.

In August we acquired Craig & Rose, a small paint company in the United Kingdom. For a modest investment we have secured a premium paint brand, combined with a local manufacturing base. There are opportunities to grow the brand with better marketing and wider distribution. An in-country presence provides opportunities to launch other brands into the UK, such as Porter's Paints and Selleys.

We have also made significant capital investments to support longer term growth in our businesses.

The new Dulux and Selleys New South Wales distribution centre opened in Sydney in June. Timing was perfect, as strong growth in these businesses had exhausted capacity at our existing warehouses. The new purpose built facility is operated by a third party and has a strong financial payback.

Our most significant capital investment to date is our world class, water-based paints factory currently under construction in Melbourne. It is on schedule to open late next year. This \$165 million investment will support growth in our Dulux paints business for decades to come.

Balance sheet and capital management

Our balance sheet is in good shape. Our gearing ratio increased only slightly and remains at a comfortable level. Cash conversion was strong at 87%. Net debt increased slightly during the year, due to a step-up in capital expenditure on the new factory and the acquisitions mentioned earlier. Capital expenditure will drop away once full commissioning of the new factory is complete in 2018. We have flexibility in our balance sheet to consider value generating M&A, where it makes strategic sense, and we will continue to consider capital management options. We will maintain our 70% dividend pay-out policy.

DuluxGroup in the community

Dividends returned to shareholders are just one of the multiple ways that DuluxGroup and thousands of businesses like us contribute to economic growth and community wellbeing. Collectively the business sector accounts for 80% of Australian employment and is an integral part of the community.

Of our \$1.72 billion in revenue this year, approximately: \$410 million went to wages and benefits for our 4,000 employees; \$52 million was paid in taxes; \$89 million was returned to shareholders in the form of dividends; \$19 million was retained for capital and growth; and \$1.15 billion was paid in expenses, including to thousands of suppliers – small, medium and large – some of which rely on DuluxGroup's businesses for their own viability and ability to employ. And, these numbers do not capture the wonderful contribution of our employees in volunteering their time to help out on community projects, to fund-raise and to provide mentoring or technical expertise to help those in need.

Being a positive participant in our communities is central to our sustainability goals. We made good progress this year against our key focus areas of product stewardship, resource efficiency, land protection and community safety.

Employee diversity at DuluxGroup

Having a workforce that reflects the diversity of our community remains a key priority for the Board. It helps in developing a more positive and inclusive workplace culture, and it makes good commercial sense. We get better insight into our consumers and customers and we benefit from a broader range of perspectives and experiences. Our immediate focus is on increasing the representation of women at all levels, and this year we continued to make good progress. We are employing proportionally more women than ever before, including at the graduate level. Whilst we still have some way to go, we do have more women in senior management than at any time in our history and it's pleasing to see an increase in the number of women now running our businesses.

Board renewal

We are also focussed on ensuring the right composition of skills and experience at a Board level. It is a key part of the Board's succession planning to identify suitably qualified candidates to ensure renewal and orderly succession when the need arises. Graeme Liebelt is one such candidate and he was appointed to the Board in June. You will hear from Graeme shortly, as he offers himself for election as a director at this meeting.

On behalf of my fellow board members and shareholders I would also like to thank Gaik Hean Chew who will retire from the Board at the conclusion of today's meeting. Gaik Hean has made a valuable contribution over the past six years, particularly providing an international perspective to board deliberations. She will remain on the board of our Hong Kong and China joint venture. We wish her well in her future endeavours.

I would like to thank Pat Houlihan, his management team and all employees for their contribution to another successful year of steady profit growth.

I would like to thank my fellow board members and our fellow shareholders for your continued support.

In conclusion, DuluxGroup has delivered solid results this year and is reinvesting to deliver long term profitable growth. We are very positive about the outlook for our businesses and confident DuluxGroup is well placed for ongoing success.

I will now invite Patrick Houlihan to address the meeting.

Thank you.

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