



DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

21 December 2017

2017 AGM – CHAIRMAN’S ADDRESS

Company performance – year in review

Fellow shareholders, this year DuluxGroup delivered a record profit and made excellent progress in shaping the business for further growth both here and offshore.

DuluxGroup’s seventh consecutive year of underlying profit and dividend growth was driven by strong performances across all of our Australian and New Zealand businesses. Our Managing Director and CEO Patrick Houlihan will shortly provide more detail about the operational performances of our businesses.

Dividends and shareholder returns

This year, the total dividend was 26.5 cents, fully franked, a 10.4% increase over the prior year.

This represented a 72% payout ratio on net profit after tax.

This continues our track record of underlying net profit and dividend growth every half since demerger. Since that time, total shareholder return¹ has been more than 300%, substantially ahead of the overall market.

Balance sheet and capital management

DuluxGroup is a strong cash flow generating company with a healthy balance sheet. Net debt increased modestly during the year, due to investment in our soon to be completed new Dulux paint factory.

However, our gearing levels remain comfortable and we have flexibility in our balance sheet to invest in further growth opportunities, including value generating M&A, where it makes strategic sense. We will also continue to consider capital management options.

We will maintain our dividend policy with at least a 70% pay-out ratio.

¹ Based on opening share price of \$2.50 on 12 July 2010 and closing share price of \$7.80 on 18 December 2017. Source: IRESS, Bloomberg

Investing for growth

Our growth strategy has served shareholders well over the past seven years, during which DuluxGroup has more than tripled its market capitalisation to approximately \$3 billion.

This outcome has been delivered through consistent, resilient organic growth of our businesses, complemented by joint ventures and acquisitions. During the year we continued to invest to grow our businesses in both domestic and offshore markets.

The new water-based paint factory here in Melbourne is a \$165 million investment to support growth in Dulux for decades to come. It also reduces risk in our supply chain, by separating water-based from solvent-based paint manufacturing and significantly reducing exposure to floods as encountered in Brisbane in 2011. We have sourced the best available technology to achieve a high level of automation and process control, which will allow us to manufacture to the highest standards. The factory also includes sustainability improvements such as solar panels, wash water recycling and reduced waste. It is on track to be completed on time and within budget, which is a credit to the project team.

We have been making small but important inroads into offshore markets. Our Selleys business has well established, profitable and growing positions in Asia, particularly in Hong Kong, Malaysia and Vietnam. During the year we extended further into the large and growing Indonesian market by forming PT Avian Selleys. This is a joint venture with one of Indonesia's leading paint companies, and we believe it has excellent prospects.

Selleys has also made a very good start during its first year in the UK, along with our Craig & Rose premium paints business. Both have successfully launched a solid and growing range of products into the Bunnings and Homebase retail network there.

It is worth reflecting on the performance of our largest M&A investment since demerger, which is the three Alesco businesses – Parchem, B&D Group and Lincoln Sentry – acquired in 2012. Five years on, these businesses are well and truly paying their way, collectively delivering a return on net assets of 16%, and we see further potential upside ahead.

DuluxGroup in the community

Creating long-term value for DuluxGroup's stakeholders goes hand-in-hand with playing a positive role in our communities. Our contribution in terms of employment, income tax and support for local businesses, as well as hundreds of community organisations is significant.

For example, of our \$1.78 billion in revenue this year, approximately: \$390 million went to wages and benefits for our 4,000 employees; \$57 million was contributed in company income taxes; \$98 million was returned to shareholders in the form of dividends; \$45 million was retained for capital and growth; and \$1.2 billion was paid in expenses, including to thousands of suppliers – small, medium and large – generating further economic and employment growth throughout our supply chain.

These figures don't capture the hundreds of hours our employees have spent fundraising and volunteering to help those in need throughout the year. They do this at their own initiative, with confidence that DuluxGroup encourages making a positive difference in our communities. As a result, hundreds of local, grassroots community projects benefited from the support of our people and products this year.

Sustainability

Our sustainability goals remain central to being a welcome part of the community. During the year we made good progress against our key focus areas of product stewardship, resource efficiency, land protection and community safety. While our operations are not energy intensive by industry standards, our focus on resource efficiency ensures that we optimise energy and water use to limit our environmental and climate change impact.

An engaged and diverse workforce

Having a diverse, engaged and skilled workforce remains critical to DuluxGroup's success. We measure our employee engagement levels every two years. This year's survey showed our engagement levels remain in line with the norm for high performing companies globally. Our employees overwhelmingly tell us that DuluxGroup is a supportive and inclusive workplace which places an extremely high value on safety and taking care of each other. Such strong results reflect the positive culture at DuluxGroup, supported by Patrick Houlihan and his management team.

Increasing the diversity of our workforce remains a priority for the Board. Our immediate focus is on increasing the representation of women at all levels. While we have some way to go, we are continuing to improve in this area. We are employing proportionally more women overall and we have more women in senior management than at any time in our history. It is also pleasing to see an increase in the number of women now running our businesses and leading key functional areas.

Remuneration – shareholder alignment

Approximately 70% of eligible DuluxGroup employees have chosen to buy shares in their own right. They share a strong sense of personal ownership in DuluxGroup, reflected in a commitment to generating sustainable profit growth and strong shareholder value.

Likewise, our executives continue to build their personal shareholding in DuluxGroup. A minimum shareholding requirement applies to senior managers, which we believe strengthens alignment between individual performance and the interests of our shareholders. This year the board introduced a deferred component to any short-term incentive earned by the DuluxGroup Executive team. This means that 15% of the incentive outcome will be provided in rights to company shares. These awards could be forfeited if an executive leaves the company under certain circumstances within the first two years after the grant. This measure is in addition to our existing clawback policy, which gives the board discretion to reduce or forfeit an executive's unvested share award.

Culture and Values

Culture and Values determine corporate and personal behaviour. The strong and enduring culture at DuluxGroup is based on four Values developed and lived by our employees. They are:

1. Be consumer driven and customer focused;
2. Unleash your imagination;
3. Value people, work safely and respect the environment; and
4. Run the business as your own.

We, the Board, visit customers and DuluxGroup sites and we meet with employees at all levels. We are confident that our employees' behaviours support these Values.

Board renewal

We are also focussed on ensuring the right composition of skills and experience at a Board level. As mentioned earlier, Garry Hounsell will retire from the Board at the end of this year. Garry has made a tremendous contribution over the past seven years. He was a founding Board member following DuluxGroup's demerger from Orica. He has provided great guidance and insight throughout, particularly as Chair of the Board's Audit and Risk Committee and as a member of the Remuneration and Human Resources Committee. On behalf of the Board and my fellow shareholders, I would like to thank Garry and wish him well in his future challenges. We are well advanced with identifying suitably qualified candidates to ensure renewal and orderly succession.

Thank you

I would like to thank Patrick Houlihan, his management team and all employees for their contribution to a very successful year at DuluxGroup.

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

DuluxGroup has delivered very strong results this year. We are 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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