



DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

20 December 2018

2018 AGM – MANAGING DIRECTOR’S ADDRESS

Thank you Graeme, and good morning ladies and gentlemen.

It is my pleasure to welcome you here today and to report on another successful year at DuluxGroup.

Operating result

In terms of the operating result, sales revenue grew 3.3% to \$1.84 billion. Excluding the China paints business, which we sold during the year, sales revenue grew 4.5%.

EBITDA growth of 5%, to \$257.7 million, was driven predominantly by revenue growth, together with good cost and margin management.

EBIT grew at a slightly lower rate of 4.2%, to \$223.2 million, with depreciation increasing due to the new Dulux Merrifield factory.

And, as Graeme said, DuluxGroup’s net profit after tax increased 5.4% to \$150.7 million.

Key drivers of the result

Our sales performance was driven by strong growth of 4.8% in Dulux ANZ, our largest business, and solid growth from the other ANZ businesses.

EBIT growth was also led by Dulux ANZ, which grew by 4.7%.

This was an excellent result in an environment of significant increases in raw material costs and the higher depreciation due to the new Merrifield factory. The business held its EBIT margin at 17.6%, reflecting pricing discipline and good cost control.

Dulux ANZ’s strong performance was well supported by our other ANZ segments – Selleys & Parchem, B&D and Lincoln Sentry – which collectively also grew EBIT by 4.7%.

EBIT in the “Other businesses” segment declined by \$0.6m or 5.3%. Growth in Yates and PNG was more than offset by investment in our UK business and in our Indonesian joint venture.

Outlook for 2019

Our outlook for the 2019 financial year remains consistent with our full year results announcements.

In particular, we retain our outlook that, subject to economic conditions and excluding non-recurring items, 2019 full year net profit after tax is expected to be higher than the 2018 equivalent of \$150.7 million.

I remind you of our disclosure around the phasing of our 2019 performance, particularly for the Dulux ANZ business. In the first half of our 2018 financial year the decorative paint market grew strongly, at 5% in volume terms, before reverting to 1.5% in the second half, which is consistent with the long term average. Given this strong first half market growth in the prior year, together with the later timing of Easter in 2019, we expect that revenue growth for Dulux ANZ will be biased to the second half.

From an EBIT perspective, this revenue growth bias, together with near term raw material cost increases (which are moderating) and the higher first half depreciation due to the Merrifield factory, will result in Dulux ANZ EBIT growth also being biased to the second half.

Finally, I would like to reiterate that the first half of 2018, and to a lesser extent the full year, was favourably impacted by a number of items that won't repeat in 2019. These included the profit from the sale of both our Glen Waverley site and our China coatings business, and the write back of a tax provision. We provided detailed disclosure on these items as part of our full year results announcements.

Strategic focus areas

Our strategy, which has delivered eight consecutive years of underlying profit and dividend growth since demerger, remains unchanged.

We are primarily focussed on markets that deliver consistent growth and strong returns. Our emphasis is on the maintenance and improvement of existing homes. This segment represents approximately two thirds of Group revenue and has proven a resilient source of profitable growth through economic cycles. For context, Australia has approximately 10 million existing homes and approximately 70% of those are more than 20 years old.

We focus on premium-branded categories, where we can leverage our marketing, innovation, technology, customer service and supply chain excellence. We also aim to align our businesses with the strongest distribution channels, and this has served us well.

We think about our strategic priorities in three focus areas:

1. Firstly, defending and growing our market leading Dulux, Selleys and Parchem businesses in Australia, New Zealand and Papua New Guinea. Highlights this year include increased investment in marketing, R&D and digital capability across our brands, as well as the opening of our new, world-class Dulux decorative paint factory in Melbourne. This factory is now fully operational and offers competitive advantage in terms of customer responsiveness and product quality.

2. 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. They are all profitable market leaders, with strong growth potential. This year, Yates acquired Organic Crop Protectants to further expand into the eco-friendly gardening segment, and we launched ‘B&D to You’ – our disruptive, in-driveway, direct to consumer sales channel.
3. Finally, while our offshore businesses are relatively small, we are investing to develop streams of growth for the future to complement our strong ANZ base. We are seeding opportunities in Asian ‘do it for me’ markets via ‘capital light’ initiatives such as our Avian Selleys joint venture in Indonesia. In western ‘do it yourself’ markets, initiatives include our Craig & Rose specialty paints business in the UK.

Our People

The success of our strategy is underpinned by our team of diverse and skilled employees who are passionate about our brands and who put our customers and consumers at the centre of everything we do. As we celebrate our centenary year, our people are aware that they are the current custodians of brands and businesses built over generations. I am proud to lead a motivated, performance-driven team who respect that legacy, and who are focussed on making our businesses even stronger for ongoing growth.

Safety

Keeping our people safe is fundamental to how we work at DuluxGroup. Our safety performance is at industry leading levels and continues to improve, reinforced by our balanced strategy of disaster prevention, fatality prevention and personal injury prevention. However, as long as there are any injuries or near misses, there is always more we can do. It is entrenched in our culture that employees speak up about anything that has potential to cause harm, and I am pleased that this year reporting was at record levels. This is the key to keeping our people and operations safe.

Thank you

I would like to thank all of our employees for their wonderful contribution to another successful year for DuluxGroup.

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

I’d also like to thank Peter Kirby, for his tremendous support during his time as Chairman and throughout our collective years at DuluxGroup.

I also thank Graeme Liebelt 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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