DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

18 May 2015

DULUXGROUP DELIVERS SOLID OPERATING PROFIT GROWTH

DuluxGroup today reported a 9.3% increase in net profit after tax (NPAT) (excluding non-recurring items[1]) to $61.4 million for the six months ended 31 March 2015 compared with the 2014 equivalent NPAT of $56.1 million.

Statutory NPAT was $49.5 million, a decrease of 17.5%. The decline was due to $11.9 million (after tax) in provisions for restructuring costs associated with two supply chain investments that were announced in March 2015 – building Dulux's new state-of-the-art paint factory in Melbourne, to open in late 2017, and establishing a purpose built distribution centre in NSW, to open in 2016[2].

The Board has declared an interim dividend of 11.0 cents per share, fully franked, which represents a 10% increase on the 2014 equivalent and a 70% payout ratio on NPAT before non-recurring items.

Managing Director Patrick Houlihan said the result was driven by profitable sales growth in most of DuluxGroup's individual businesses, in generally positive market conditions. Effective input cost control across the group and lower oil prices largely offset the impact of the weaker Australian dollar.

"DuluxGroup has delivered 9.3% net profit growth, underpinned by the continued strong performance of our largest business, Paints and Coatings Australia and New Zealand.

"Two of our businesses, B&D Garage Doors and Openers and Parchem Construction Products, experienced revenue and profit challenges during the half, due in part to softer markets and the transitional impact associated with the implementation of important strategic initiatives, particularly in B&D. We are confident that we have the strategies in place to improve and grow these businesses.

"We have also made very good progress operationally, including announcing significant investments in our manufacturing and supply chain to support ongoing growth in our core ANZ businesses for decades to come," he said.

Sales revenue increased 4% to $836.9 million.

Earnings before interest and tax (EBIT), excluding non-recurring items[1], was $94.1 million, an increase of 3.6% on the prior year. EBIT from DuluxGroup businesses (that is, excluding corporate costs) increased 6.0%.

Net debt to EBITDA further improved, reducing to 1.48 times compared with 1.53 times at 30 September 2014.

---

[1] Non-recurring items are detailed on p.17 of the Half Year Report and resulted in an adverse impact of $11.9 million after tax ($17.0 million pre-tax). Directors believe that the result excluding these items provides a better basis for comparison from period to period and a better understanding of the underlying performance of the business.

[2] The new paint factory will replace most of the water based manufacturing currently at Rocklea, resulting in reduced staffing levels at that factory. The new third party operated distribution centre will replace two existing distribution centres in NSW. These provisions are to cover employee restructuring costs associated with both of these projects and will be utilised progressively from FY16 to FY18.

Review of Operating Segments

DuluxGroup's largest operating segment, Paints and Coatings Australia and New Zealand grew sales by 6.2% to $442.4 million and EBIT by 9.0% to $78.7 million. Revenue growth was broadly in line with overall market growth. The early timing of Easter positively impacted sales and market growth.

Consumer and Construction Products Australia and New Zealand, comprising the Selleys and Parchem businesses, grew EBIT by 0.8% to $13.2 million on sales which fell 0.4%. Revenue and EBIT growth from Selleys offset a decline in Parchem sales and EBIT, which were affected by continued softness in engineering construction markets and weak sales in the construction equipment business. A number of initiatives have been implemented to improve Parchem profitability, including changes in business leadership, structural cost reduction and growth projects in the decorative concrete business.

EBIT in the Garage Doors and Openers business, comprising B&D and other brands, declined 26.7% to $5.5 million. This result reflected revenue decline due to transitional impacts associated with the launch of the new product range in late calendar 2014 and implementation of the dealer distribution strategy. We are confident that the strategy for this business is appropriate and we are targeting second half improvement.

Cabinet and Architectural Hardware grew EBIT by 5.9% to $3.6 million. Sales growth of 7.0% reflects continued growth in the core cabinet hardware business.

DuluxGroup's 'Other businesses' segment grew EBIT by 22.0% to $7.2 million on sales that grew 4.6%. EBIT growth was driven by a strong performance from Yates, margin improvement in China, a favourable foreign exchange translation benefit from PNG, with South East Asia flat.

Corporate costs were adversely impacted by an increase in long service leave provisions due to the impact of lower bond rates used to discount the non-current liability. Excluding this impact, underlying costs were within expectations.

"Overall this has been a very solid first half, in which most of our businesses have delivered profitable growth. The continued strong performance from our Paints and Coatings businesses has combined with pleasing contributions from our Selleys, Yates and Cabinet & Architectural Hardware businesses," said Mr Houlihan.

"At the same time, we have implemented a number of initiatives to improve profitability in our Parchem Construction Products and B&D Garage Doors and Openers businesses."

Outlook for 2015

Lead market indicators for our key markets remain largely positive.

Subject to economic conditions, and excluding non-recurring items, we expect that 2015 net profit after tax will be higher than the 2014 equivalent of $111.9 million.

Media Contact: Lisa Walters, DuluxGroup Corporate Affairs Manager
03 9263 3652 or 0421 585 750