



**HD (SWDLX) Ferret's Stock Watch: DULUXGROUP LIMITED**

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DIVERSIFIED HOME, GARDEN IMPROVEMENT PRODUCTS, DOING WELL

Sydney - Monday - October 17: (RWE Aust Business News) -

**TD**

DULUXGROUP (ASX:DLX) DuluxGroup is a leading home and garden product maker of premium branded items to enhance, protect and maintain the places and spaces in which people live and work.

These are the first key lines of the **company**'s annual report for 2014.

Its core purpose at DuluxGroup is to help consumers to imagine and create better places and spaces in which to live and work.

We call this...imagine a better place Driven by these values, DuluxGroup people continue to find smarter, market leading solutions for consumers and our retail and trade customers.

Our strategy is to continue to build on our market leading positions in our core ANZ paint, specialty coatings and adhesives business.

2 Focus is on capability-led growth in adjacent premium branded, consumer home improvement, categories

3 Build on our niche coatings and adhesives positions offshore for the longer term

4 Pursue business improvement opportunities

5 Maximise organisational leverage

Be customer focused and consumer driven; value people, work safely and respect the environment  
Innovate and grow to unleash our potential

Run the business as your own way.

Dulux Group's strengths investing for growth:

It continues to invest in the fundamentals of brands, innovation and customer service to build on our premium branded, market leading positions in core markets Invested in sales and marketing capability in recently acquired businesses such as **B**&D garage doors and openers and Lincoln Sentry cabinet and architectural hardware.

Formed the new Consumer and Construction Products division, consisting of the Selleys and Parchem businesses, using their collective expertise as a stronger platform from which to pursue growth in construction, engineering and infrastructure markets.

DuluxGroup has continued to invest in the **China** business to capitalise on growth opportunities for Selleys, AcraTex and paints over the medium to long term

It has made excellent progress in targeted business improvement initiatives, including margin improvement for Yates and **China**

Other businesses DuluxGroup's Other Businesses include: Yates, which is Australia and New Zealand's leading manufacturer and marketer of products for home gardening and small scale commercial horticulture.

Products include seeds, pest and disease control, lawn care, fertilisers, pots, potting mix and organic gardening products.

the Dulux paints business in Papua New Guinea.

the DGL Camel business in **China** and **Hong Kong** and the DGL International business in South East Asia.

These businesses have targeted niche positions across categories, including decorative and specialty coatings, adhesives, sealants and paint accessories.

Managing Director Patrick Houlihan told shareholders in his annual report that overall it had been a very successful year, with strong performances across all of our segments

"I am pleased to report that this year DuluxGroup has continued to perform well and deliver further profit growth.

2014 net profit after tax (NPAT) was \$111.9 **million**, an increase of 21.4% (excluding non-recurring items) compared with the 2013 equivalent NPAT of \$92.2 **million**.

The result was driven by strong profitable sales growth in strengthening Australian and New Zealand markets, the contribution of a full 12 months of Alesco earnings and effective margin improvement initiatives.

Sales revenue increased 8.5% to \$1.6 **billion**, assisted by a full 12 months of Alesco earnings compared with 10 months in 2013.

Including a full 12 months of pro forma Alesco contribution in 2013, sales grew 3.6%.

Earnings before interest and tax (EBIT), excluding non-recurring items<sup>1</sup>, was \$183.8 **million**, an increase of 19.4% on the prior year, and an increase of 12.0% on a pro forma basis.

A successful year was once again underpinned by ongoing investment in marketing, innovation and customer service to build on our core market leadership positions and establish solid foundations for further growth options in our expanded end product and customer markets.

Strong financial discipline was also reflected in the form of good cash generation and tight management of pricing and input costs.

Segment performance DuluxGroup's largest operating segment, Paints and Coatings Australia and New Zealand, grew sales by 6.1% to \$821.6 **million** and EBIT by 12.1% to \$138.9 **million**.

Market growth of approximately 4% was driven by increased housing activity in both Australia and New Zealand.

Double digit earnings growth reflects DuluxGroup's strategic focus on higher value, profitable market segments and disciplined cost control.

Consumer and Construction Products, comprising the Selleys and Parchem businesses in Australia and New Zealand, grew pro forma EBIT by 3.1% to \$29.8 **million** on flat pro forma sales.

A strong performance from Selleys offset the slight decline in Parchem earnings, which were affected by the continued downturn in engineering construction markets.

The Garage Doors and Openers business, comprising **B&D** and other brands, grew proforma sales by 5.8% and pro forma EBIT by 4.6%.

Excluding net insurance gains in the prior year, EBIT actually grew by 8.9%.

This strong result was achieved while the business increased its advertising and implemented a strategic move away from lower margin, non-aligned customer channels.

Australian and New Zealand market growth was strongest in the new housing sector, where the **B&D** business has less of a focus.

Cabinet and Architectural Hardware grew pro forma sales by 8.5% and pro forma EBIT by 25.4% to \$8.9 million, driven by market share gains and cost reductions from a restructured business model.

Profitable market share gains were underpinned by continued investment in sales effectiveness and new customer marketing programs.

DuluxGroup's other businesses segment comprising the Yates garden care business and DuluxGroup's Papua New Guinea (PNG), China, Hong Kong and South East Asia businesses grew EBIT2 by 34.1% to \$12.2 million, on sales2 that declined 5.2%.

EBIT growth was driven by a strong performance from Yates, improved earnings in China and margin improvement initiatives generally.

The PNG business remains a profitable market leader in decorative paints, but was impacted by slowing investment in industrial and mining sectors.

MD Houlihan declared the company had made very good progress on our near term strategic imperatives during the year.

"We have delivered revenue and profit growth across all of the heritage DuluxGroup businesses to maintain and extend our market leadership positions.

We have largely integrated the new businesses, delivering \$9 million in synergies since acquisition.

At the same time, we have made good strategic progress across 1.

Non-recurring items are outlined in the Annual Report.

2.

Sales and EBIT comparisons with prior period exclude 10 months of sales in 2013 from the divested Robinhood business and the non-cash impairment charge in 2013 and 2014 relating to DuluxGroup's business in China.

## SHARE PRICE MOVEMENTS

Shares of DULUXGROUP rose 14c to \$5.78 Friday after regaining some losses earlier in the week. Rolling high for the year is \$5.87 and low \$5.11. Dividend is 20.5c to yield 3.55 per cent. Earnings per share is 28.10c while price earnings ratio is 20.57.

The company has 38.3 million shares on issue with a market cap of \$2.2 billion.

Chairman Peter Kirby emphasised the importance of the Alesco acquisition which has created opportunities in a broader range of premium branded and consumer focused product categories in resilient Australian and New Zealand residential home improvement markets.

The B&D garage doors and openers and the Lincoln Sentry cabinet and architectural hardware businesses complement our more long standing Yates garden care business.

They each allow us to leverage DuluxGroup's key capabilities to add value.

Much of the focus this year has been on increasing investment in marketing, innovation, customer service and sales capability.

These businesses have all delivered excellent results this year, with very pleasing improvements in performance.

Sales growth in our China business was below the level in our business plan to support the goodwill of the business.

This, combined with the weakened growth outlook for China and Hong, has led to a non-cash impairment charge of \$9.2 million (before and after tax) being recognised against the intangible assets relating to our 51% owned DGL Camel business.

This follows an impairment charge of \$10.2 million in 2013.

DuluxGroup's goodwill associated with DGL Camel has now been fully written off.

Although growth in our targeted Asian markets has been slow, we remain confident in the medium to long term growth opportunities.

During the year we divested the Opel wood coatings business to increase our focus on our core paint, texture coatings and adhesives product segments.

This provides a stronger footing from which to grow.

Looking forward, DuluxGroup will continue to focus on generating profitable growth from within our existing businesses, while assessing value generating acquisitions that are aligned to our capabilities and strengths.

DuluxGroup has made excellent progress against its safety and sustainability measures during the year.

The number of recordable employee injuries is at historically low levels and this year there was a significant decrease in injuries, with the newer Alesco businesses showing a tremendous improvement in this area.

We also continued to reduce our waste generation, water and **energy** consumption during the year.

DuluxGroup now employs approximately 4,000 people throughout the world.

One of their core values is to feel a strong sense of ownership in DuluxGroup and its success.

During the year we completed our survey of employee engagement.

More than 90% of employees responded to the survey, which is an extremely high response by global standards.

It revealed that our employees overall feel a very strong commitment to going the extra mile to deliver superior results for our customers, consumers, the community and ultimately our shareholders.

This strong sense of ownership is reflected in the fact that more than 70% of eligible employees choose to join you as shareholders of DuluxGroup.

Likewise, our executives continue to build their personal shareholdings in DuluxGroup following the extension of minimum shareholding requirements to senior managers last year.

This is consistent with the Board's commitment to ensuring a strong alignment between remuneration, **company** performance and shareholders interests.

A significant area of focus this year has been to increase the diversity of DuluxGroup's workforce, and in particular to increase the diversity of DuluxGroup's workforce, and in particular to increase the number of women employed overall and appointed to leadership roles.

On behalf of Board members I would like to thank our shareholders for your continued support.

"I look forward to the next opportunity to update you on your **company**'s performance, chairman Kirby concluded.

MD Houlihan continued: In the half, DGL Camel revenue grew 2.3%, despite disposing of the Opel Woodcare business during the period, assisted by foreign exchange translation benefits.

EBIT improved due to margin improvements and fixed cost savings.

Powder Coatings revenue and EBIT both grew, led by favourable conditions in New Zealand and mild growth in the Australian market

There was a slowdown in the PNG economy and a lower Kina continues to impact the PNG results, with a reduction in both revenue and EBIT.

Despite the result, the PNG business remains a profitable market leader in decorative paints.

South East Asia produced a flat EBIT result.

However, corporate costs were broadly in line with the prior year. Costs of fringe benefits tax relating to debt forgiveness on the close-out of the 2010 Long Term **Equity** Incentive Scheme (\$1.5M) and share matching costs of the Employee share Investment Plan (\$0.9M) were offset by further Alesco corporate cost synergies

Changes in accounting standards have impacted the accounting treatment of the Group's defined benefit superannuation scheme (reflected in both periods)

Second half Corporate costs expected to be slightly higher than the first half, due to timing of spend.

## BACKGROUND

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The Dulux Group is a manufacturer and marketer of products that protect, maintain and enhance the spaces and places in which we live and work.

The **company** makes and markets branded products, mainly in coatings, home improvement, and garden care markets.

DLX has four main segments namely Paints Australia, Paints New Zealand, Selley's Yates and Offshore.

The **operations** are conducted in Australia, New Zealand, Papua New Guinea, South East Asia and **China**.

Part of the Group includes Paints New Zealand which is NZ's top marketer and manufacturer of premium branded decorative paints, texture and woodcare coatings products.

Selley's Yates Australia is New Zealand's leading marketer and manufacturer of home improvement and garden care products.

**CO** dlxgrl : DuluxGroup Limited

**IN** i2551 : Paints/Coatings | i25 : Chemicals | ibasicm : Basic Materials/Resources | icnp : Consumer Goods  
| ihmpro : Home Improvement Products

**NS** glife : Living/Lifestyle | gcat : Political/General News

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