

# Managing Director's Report

I am pleased to report that DuluxGroup has delivered another year of solid profit growth.



## Group performance

2016 Net Profit After Tax (NPAT) was \$130.4 million, an increase of 4.6% compared with the 2015 equivalent NPAT of \$124.7 million.

Sales revenue increased 1.7% to \$1.72 billion. Otherwise solid growth was offset by the short term impact from changes in our Australian and New Zealand retail channels, combined with ongoing decline in Australian resources infrastructure and Papua New Guinea markets.

Earnings before interest and tax (EBIT) was \$201.1 million, an increase of 4.5% excluding non-recurring items incurred in the prior year<sup>1</sup>.

The result was underpinned by strong financial discipline to effectively manage margins and retain strong cash flow performance.

## Business performance

The result was driven by consistent earnings growth in Australia and New Zealand from DuluxGroup's heritage businesses: Dulux Paints & Coatings, Selleys Consumer Products and Yates Garden Care.

Dulux, Selleys and Yates makes up more than two thirds of DuluxGroup revenue and collectively grew earnings by 6.2%, and individually delivered record profits.

The Dulux trade and specialty coatings parts of these businesses performed particularly well, which demonstrates the value of our broad end-market approach.

B&D Garage Doors & Openers, Parchem Construction Products and Lincoln Sentry Cabinet & Architectural Hardware, which were acquired in late 2012, collectively delivered EBIT growth of 8.6% in mixed market conditions.

These businesses make up about 25% of DuluxGroup's revenue. They are all profitable market leaders and are together delivering a solid return on the original cost of acquisition.

Lincoln Sentry delivered excellent revenue and profit growth and Parchem managed margins and costs to maintain profit in very tough markets. B&D is proving more challenging and we have more work to do to take this from a good business to a consistently strong performing business.

Earnings in DuluxGroup's offshore businesses, which represent around 5% of DuluxGroup's revenue, were down by \$2.7 million, solely due to market decline in Papua New Guinea, with China and South East Asia improving.

## Growth driven by consistent investment in premium brands, innovation and customer focus

Profitable growth has been delivered amidst ongoing competition from global competitors and ongoing changes in retail customer channels.

For our Dulux, Selleys and Yates businesses, the past 18 months have been marked by a number of changes in Australian and New Zealand retail customer channels. The fall-out from the Masters stores closures, the consolidation in the independent hardware segment in Australia and the transition of our paints brands out of Mitre 10 in New Zealand have all presented challenges.

Our businesses have responded well, delivering solid results and continuing to build their market leading positions. This success has been driven by ongoing investment in our premium brands through marketing, new product innovation and relentless focus on customer service. A number of new products were launched onto the market and we have significantly stepped-up our digital capability to interact with our consumers in real time to help them 'imagine and create a better place.'

It was pleasing to see that Dulux was again voted Australia's most trusted paint brand and is this year's fourth most trusted brand overall across any surveyed product category, and Yates was once again voted Australia's most trusted garden care brand.

# 4.6%

INCREASE IN GROUP NET PROFIT

# EARNINGS BEFORE INTEREST AND TAX (EBIT) WAS \$201.1 MILLION, AN INCREASE OF 4.5% EXCLUDING NON-RECURRING ITEMS INCURRED IN THE PRIOR YEAR.<sup>1</sup>

We are continuing to build B&D, Lincoln Sentry and Parchem, which are already profitable market leaders, into better businesses. We have strengthened sales, marketing and customer service capability to take these businesses to a higher level of performance.

Lincoln Sentry has developed into a consistently strong performer since acquisition, growing earnings by 19% on a compound annual basis. It continues to grow its position as one of Australia's leading distributors of premium branded cabinet and architectural hardware with incremental market share growth.

Parchem's topline growth has been challenged by the decline in infrastructure markets, particularly resources related. It has made good progress on restructuring the business, reshaping its distribution strategy, reducing costs and increasing its focus on the stronger civil infrastructure and commercial construction market segments.

B&D now has a fit for purpose customer sales and service structure and has invested to ensure it has the right product mix to deliver profitable growth. It has built a new brand position - 'Home Safe Home' - based on consumer insights, and has invested in new products, advertising and digital marketing to support it. The foundations are strong, and the focus is now on profitable revenue growth, whilst managing costs and margins, and continuing to build its premium brand position.

We are transferring capability into our more recently acquired businesses, including Porter's which has now extended its distribution reach with bespoke displays now installed in 40 stores across the Dulux Trade Store and independent paint specialist network throughout Australia and New Zealand.

Offshore, we have recently acquired the Craig & Rose paint company in the United Kingdom (UK). This is a small business with a premium brand and good growth potential from investment in marketing and better distribution. This acquisition also gives us a good physical base to potentially launch other brands and ranges into the UK market, for example Selleys and Porter's.

## Success driven by culture

A major focus for the Executive Team this year has been ensuring that we have the right culture to be a truly consumer driven and innovative company. Six years of consecutive profit growth is a healthy platform from which to build an even stronger company. Our people at all levels are embracing opportunities to live the Values that will guide our success:

- Be consumer driven, customer focused.
- Unleash your imagination.
- Value people, work safely and respect the environment.
- Run the business as your own.

Our people are motivated to continuously improve their understanding of our consumers and to be imaginative in finding better and smarter ways to deliver what they need. In doing so, the fundamentals of financial discipline, customer service and ensuring the safety of ourselves and others have not changed.

An unwavering safety focus is consistently nominated by our employees as one of the things they most value about working at DuluxGroup. We encourage and reward proactive reporting of anything that could potentially cause injury, and I am pleased that the level of reporting increased to record levels this year. This marks six years of continuous improvement in this area.

## Senior management changes

In February this year Siobhan McHale joined the DuluxGroup Executive Team as Executive General Manager of Human Resources.

We also increased the gender diversity in our senior management ranks, through both external appointment and internal promotion of women to the roles of: Director of Dulux Marketing ANZ; Selleys Global Marketing Director; General Manager of Automatic Technology; General Manager of Cabot's; and Technology Manager for Dulux ANZ.

## Thank you

Employees at all levels have contributed to another successful year of profit growth and I thank each of them for their ongoing commitment.

I would also like to thank Peter Kirby and the rest of the DuluxGroup Board. Finally, I thank you our shareholders for continuing to invest in DuluxGroup.



**PATRICK HOULIHAN**  
8 NOVEMBER 2016

1. Non-recurring items in FY15 are outlined on page 19 of the Annual Report.