



DuluxGroup Limited

ABN 42 133 404 065

## **ASX Announcement**

18 December 2012

### **2012 AGM – CHAIRMAN’S ADDRESS**

#### **Performance – Year in Review**

Good morning ladies and gentlemen, I am pleased to report that DuluxGroup has continued to grow and increase profits slightly, despite the year presenting a number of challenges. Our existing core business has strengthened its market position. At the same time we have invested to improve growth options and extend our reach into new markets.

This year housing market conditions were, frankly, dismal. Our core Australian paints market declined 4%, which is only slightly better than the 4.5% decline experienced during the global financial crisis. Yet DuluxGroup delivered very good sales growth and increased like for like net profit by 2.6% compared with the prior year.

Further, our core Australian paints business achieved profitable market share growth, with the trade segment being particularly strong.

DuluxGroup has carved out a relatively resilient strategic position, with a focus towards the maintenance and improvement of existing homes. Our exposure to the more cyclical new housing sector is about 10% and is biased towards the premium end. However 2012 served up conditions from which no business could be insulated. Pat will go through the result in more detail shortly, but overall, a really solid performance, underpinned by very good cost control.

#### **Dividends and shareholder returns**

The board has declared a final dividend of 8 cents per share, taking the full year dividend to 15.5 cents per share, compared with 15 cents in 2011. In relation to the final dividend, the Board has offered a dividend reinvestment plan at a 2.5% discount. The dividend reinvestment plan offers existing shareholders an easy and cost effective way to increase their shareholding in DuluxGroup. This has been very well received, with approximately 35% of the total value of dividends having been reinvested. We thank our shareholders for their support.

Following demerger from Orica, DuluxGroup listed on the ASX at \$2.50 in July 2010. Since then, it has delivered a total shareholder return of 67%, based on last Friday’s closing price of \$3.72, and has outperformed the benchmark ASX 200 Accumulation Index, which returned approximately 17% over that time. DuluxGroup’s share price has outperformed the

ASX 200 index and an index of peer companies by approximately 45% since demerger from Orica. Our share price performance has been particularly strong in the last 12 months.

## **Strategy**

On 12 December 2012 DuluxGroup dropped all remaining offer conditions and took control of Alesco Corporation. We have now acquired more than 90% of Alesco's shares and intend to commence the process to compulsorily acquire the remaining shares.

The DuluxGroup and Alesco businesses have much in common. They each have leadership positions in their chosen markets, premium brands, technology advantages, local manufacturing expertise, extensive trade networks, and a strong company owned trade store network. The purchase was timed at a low point in the housing cycle and is a logical progression of DuluxGroup's growth strategy.

Since DuluxGroup demerged from Orica in July 2010 it has remained a strong cash generating, high dividend-paying company, seeking to grow in a measured, low risk way.

First and foremost, we see ourselves as a paint, specialty coatings and adhesives company with market-leading positions in Australia, New Zealand and PNG. This has evolved through both organic growth and acquisitions, particularly over the past 25 years.

Our core Dulux decorative paints, Cabot's woodcare, Acratex texture coatings, Selleys and, to a lesser extent, Protective and Powder Coatings businesses are primarily targeted at residential home improvement, and have some exposure to commercial architecture.

The addition of Alesco's Parchem business, with its extensive expertise in engineering contracting and infrastructure, is a logical extension of our growth strategy into these new end markets. We also see opportunities to extend Parchem's product range into our traditional retail channels, where currently they have had little exposure.

We have also sought growth opportunities into adjacent home improvement categories where, due to our trade and retail capability, we can be the 'natural owners'. The acquisition of our Yates garden care business in 2004 is an example. And, the addition of Alesco's B&D garage doors and openers business is a continuation of that growth strategy. The Lincoln Sentry business could also fit this strategy. It is a well managed and profitable business, however, we are conducting a strategic and financial review over the next few months to better understand the opportunities there and see whether DuluxGroup is in fact a natural owner of this business.

In the high growth markets in Asia, we are also developing niche positions for our core coatings & adhesives products. During the year we made further progress by completing the integration of the DGL Camel business in mainland China and Hong Kong. Targeted synergies have now been delivered and the business is well positioned to capitalise on the long term positive outlook for these markets.

During 2013 our focus will be on integrating the Alesco businesses and maximising the opportunities as soon as possible. However, we remain open to value-adding opportunities.

## **Balance Sheet, Funding & Debt**

Our debt funding costs are now lower as a result of renegotiating our main debt facility in November 2011. A cautious approach to our debt leverage has allowed us the required liquidity and confidence to pursue prudent growth opportunities, such as Alesco, at the optimal time. Our debt level is slightly above our preferred range as a result of the acquisition, but our debt ratios are well within bank covenants. Even so, with a good record of cash generation, we are confident of reducing that gearing quite quickly.

## **Corporate Governance**

Members of the board and senior management have devoted an extraordinary amount of time to both the Alesco acquisition and the existing business during the year. We have a very well-balanced board covering the skills, gender balance and experience we require.

In the last few weeks, we carried out an external assessment of how the board and its committees are operating. It confirmed that the board is operating very well, but there are always opportunities for improvement.

Two directors come up for re-election this year and we will come to that later. Ms Gaik Hean Chew has also been appointed to the board of DGL Camel, covering our China and Hong Kong operations, and will assist the board in developing further opportunities in Asia.

## **Remuneration**

Based on an external remuneration review, we adjusted some senior fixed annual salaries and left some unchanged. Short term incentive payments were generally lower in 2011-12 and the board used its discretion to adjust the STI's of a small number of executives that were heavily committed to the Alesco acquisition.

As we promised when DuluxGroup was demerged from Orica, we plan during 2013 to review our senior management remuneration system using external advice.

The high level of commitment to the company and its strategic path is evident amongst employees at all levels. Approximately 75% of Australian and 60% of New Zealand employees are shareholders. During the 2012 financial year, our employee share investment scheme allowed Australian and New Zealand employees to purchase shares up to a value of \$1,000 and \$770 respectively using pre-tax income. The company supported the scheme by matching the employee contribution.

## **Diversity**

A diverse employee and leadership group is critical to DuluxGroup's ongoing success. The Diversity Council, comprising our Managing Director and other senior managers, was established in April 2011. It has made good progress towards our goal of improving the attraction and retention of female employees. This has included changes to recruitment strategy and family leave policies, and adopting programmes to increase the number of women in senior roles. Actions are also underway to manage generational and cultural diversity.

## **Sustainability, Safety & Environment**

During the year we made excellent progress towards our sustainability goal of 'a future without harm'. Due to the low level of direct emissions from its operating sites, DuluxGroup is not liable

to pay the carbon tax. However, during the year we increased our efforts to further reduce the impact of our operations on the environment. The company reduced both water consumption and waste generation to landfill across its operating sites. Our workplace safety record for the continuing business has improved 35% compared with the average for the previous three years.

### **The Year Ahead**

During 2012, the retail and consumer markets we serve have been very quiet, however lower interest rates and improved consumer sentiment should provide a tail wind for the year ahead. Pat will provide more detail on that in a moment.

### **Thank You**

I would like to thank Pat Houlihan and his management team who have invested so much of their efforts this year in ensuring DuluxGroup remains a very profitable, customer focussed and safe group of businesses.

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

2013 holds great opportunities for DuluxGroup. We start the calendar year with a strengthened growth platform and a broader portfolio of businesses aligned to a clear growth strategy.

Please can I ask Patrick Houlihan to now address us.

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