DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

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DULUXGROUP PROFIT GROWTH CONTINUES

DuluxGroup today reported net profit after tax (NPAT) of $63.7 million for the six months ended 31 March 2016, an increase of 3.7%, excluding the impact of non-recurring items in the prior period.

Including the impact of the non-recurring costs in the prior period ($11.9 million after tax)[1], statutory NPAT for the half increased 28.7%.

The Board has declared an interim dividend of 11.5 cents per share, fully franked, which represents a 4.5% increase and a 70% payout ratio on NPAT.

Sales revenue increased 1.7% to $851.1 million.

Earnings before interest and tax (EBIT) was $98.3 million, an increase of 4.5% on the prior year excluding non-recurring items.

Net debt to EBITDA improved to 1.4 times, compared with 1.5 times at 31 March 2015.

"DuluxGroup continued its track record of consistent growth in net profit, which was underpinned by another strong performance from our largest division, Paints & Coatings Australia and New Zealand. This division contributes almost 75% of DuluxGroup's overall business EBIT," said managing director Patrick Houlihan.

Review of Operating Segments

DuluxGroup's **Paints & Coatings Australia and New Zealand** business grew sales by 2.3% to $452.5 million and EBIT by 5.0% to $82.6 million. A strong performance from the Australian business, which contributes about 90% of this segment's EBIT, was partially offset by decline in the New Zealand business. In Australia, revenue was up 4% and market share increased. Decline in New Zealand was due to the exit from Mitre 10 in late 2015, and is in line with guidance provided at the 2015 full year and AGM. Full year 2016 EBIT in New Zealand is expected to be flat overall on the 2015 full year.

In **Consumer and Construction Products**, comprising the Selleys and Parchem businesses in Australia and New Zealand, EBIT declined 6.8% ($0.9 million) to $12.3 million on sales that fell by 5.2% ($7 million). Parchem construction products continued to be challenged by weak markets, particularly in resources infrastructure. As stated at the 2015 AGM, ongoing focus on structural changes, cost reduction and margin improvement initiatives has the business positioned for a stronger second half. Selleys EBIT was in line

[1] Non-recurring items in the prior period comprised employee restructuring costs related to the building of Dulux's new paint factory to open in Melbourne in late 2017 and establishing a new purpose built distribution centre in NSW to open late 2016

with record first half earnings delivered in 2015, on sales that were flat due to destocking in Woolworths' hardware channels.

The B&D **Garage Doors and Openers** business grew sales by 7% to $84.3 million in positive markets and held operating gross margins. EBIT of $5.5 million was flat on the prior year, reflecting one-off costs of $0.5m for customer service centralisation. The business is well positioned for improvement in the seasonally stronger second half, with good revenue momentum, lower costs, a relaunched brand and new premium products.

Cabinet and Architectural Hardware grew EBIT by 38.9% to $5 million, driven by sales growth of 8.2% and margin improvement initiatives. This business is also well positioned for the second half.

DuluxGroup's '**Other businesses**' segment grew EBIT by 1.4% to $7.3 million on sales that fell 1.0%. EBIT growth was driven by improvement in the Yates, China and South East Asia businesses, largely offset by a decline in Papua New Guinea due to weak economic conditions.

Corporate costs increased 2.1%.

"We've also made good progress on key strategic growth initiatives. We have invested in a wide range of organic growth projects across our businesses, supplemented by M&A activity such as the Yates acquisition of Munns lawn care. We have also achieved targeted design and construction milestones for the new paint factory in Melbourne. The new distribution centre in New South Wales is on track for opening later this year," said Mr Houlihan.

Summary and Outlook for 2016

"Overall this has been a solid first half result. Our businesses have responded well to variable market conditions and effectively managed the anticipated 'wash through' of destocking in some of our retail customer channels," said Mr Houlihan.

"Our Paints & Coatings ANZ business delivered strong profitable growth and is on track to reverse the first half impact of the exit from Mitre 10 in New Zealand by the full year. Selleys maintained sales and record earnings, notwithstanding the sales impact of destocking in Woolworths' hardware channels, and Yates grew earnings in soft markets. The Lincoln Sentry and B&D Garage Doors & Openers businesses both have strong sales momentum going into the second half, and Parchem cost and margin improvement initiatives are on track to at least offset continued weakness in infrastructure markets.

"We highlighted there would be challenges in this first half, and the business has stood up well and delivered sound results. DuluxGroup is well placed going into the second half for continued profit growth."

Our overall view of the market remains largely unchanged from commentary at our December 2015 AGM. Our key market of 10 million existing homes in Australia (which represents approximately two thirds of DuluxGroup revenue) is expected to continue providing resilient, profitable growth.

Subject to economic conditions, and excluding non-recurring items, we expect that 2016 net profit after tax will be higher than the 2015 equivalent of $124.7 million.

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