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Regaining lost ground: The industry is bouncing back from recent lows

IBISWorld Industry Report C2542
Paint Manufacturing in Australia

June 2011

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About this Industry

Industry Definition

This industry comprises companies that manufacture various paints, timber finishes and other surface coatings for decoration and the protection of surfaces against wear, weather and corrosion.

Main Activities

The primary activities of this industry are

- Caulking compound manufacturing
- Filler or putty manufacturing
- Lacquer manufacturing
- Paint manufacturing (except bituminous)
- Prepared paint or varnish remover manufacturing
- Prepared paint tinting colour manufacturing
- Primer or undercoat paint manufacturing
- Rubbing compound manufacturing
- Stain manufacturing
- Wood stain manufacturing (packed for sale)

The major products and services in this industry are

- Architectural and decorative paints
- Heavy-duty coatings
- Industrial paints
- Thinners
- Timber finishes

Similar Industries

C2520 Bituminous Product Manufacturing in Australia
Companies in this industry manufacture bituminous paints.

C2534 Ethylene, Propylene and Other Organic Industrial Chemical Manufacturing in Australia
Businesses in this industry manufacture organic chemical colours, dyes or pigments (except prepared tinting colours for paints).

C2535 Titanium Dioxide and Other Inorganic Chemical Manufacturing in Australia
Companies in this industry manufacture inorganic chemical colours, dyes or pigments (except prepared tinting colours for paints).

Additional Resources

For additional information on this industry

www.abs.gov.au
Australian Bureau of Statistics

www.apmf.asn.au
Australian Paint Manufacturers' Federation

www.hia.com.au
Housing Industry Association

www.pcimag.com
Paint & Coatings Industry

Industry at a Glance

Paint Manufacturing in 2011

Key Statistics Snapshot

Revenue	Annual Growth 06-11	Annual Growth 11-16
$3.4bn	1.3%	1.6%
Profit	**Exports**	**Businesses**
$119.0m	$195.0m	82

Market Share

Duluxgroup Limited 18.0%

PPG Industries Australia Pty Ltd 12.0%

Wattyl Limited 11.0%

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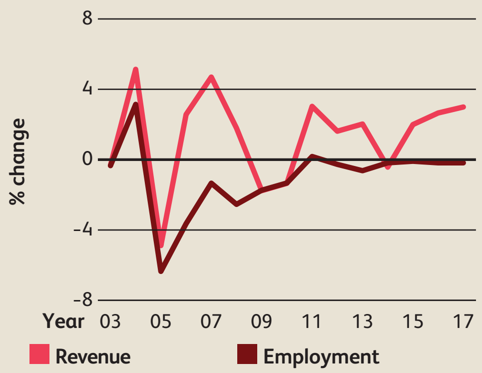
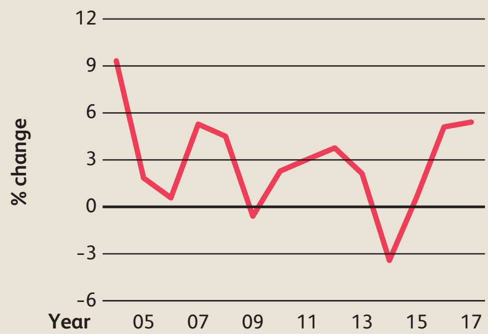
Revenue vs. employment growth



Demand from building construction



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Key External Drivers

- Demand from building construction
- Real GDP growth
- Demand from industrial machinery and equipment manufacturing
- Demand from motor vehicle and part manufacturing
- Demand from furniture, houseware, and appliance retailing

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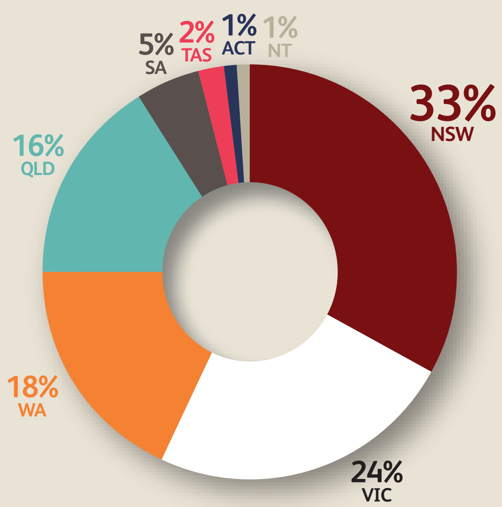
Establishments



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Industry Structure

Life Cycle Stage	Mature	Regulation Level	Medium
Revenue Volatility	Medium	Technology Change	Low
Capital Intensity	Medium	Barriers to Entry	High
Industry Assistance	Low	Industry Globalisation	Medium
Concentration Level	Medium	Competition Level	High

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 38

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

The first commercial production of paint in Australia dates back to the 1850s. Over the past century, the Paint Manufacturing industry experienced strong growth in line with Australia's industrial development, before entering a slower growth phase as the industry matured. Today it remains a relatively important component of Australia's broader chemical segment.

One of the defining characteristics of the industry is the dominant position held by a few major players with a strong stable of national brand names within different price points and product segments. These major players operate on a vertically integrated basis so that competition occurs across the supply chain rather than just at the manufacturing level.

Over the five years through 2010-11, industry revenue growth, averaging 1.3% per annum, has been below that of the general economy. In line with the slowdown in the industry due to weak economic growth, the cyclical downturn in the housing market and the decline of the domestic Motor Vehicle Manufacturing industry, the Paint Manufacturing industry's revenue contracted in 2009-10 for the second consecutive year, with sales of $3.3 billion, down from $3.4 billion in 2007-08.

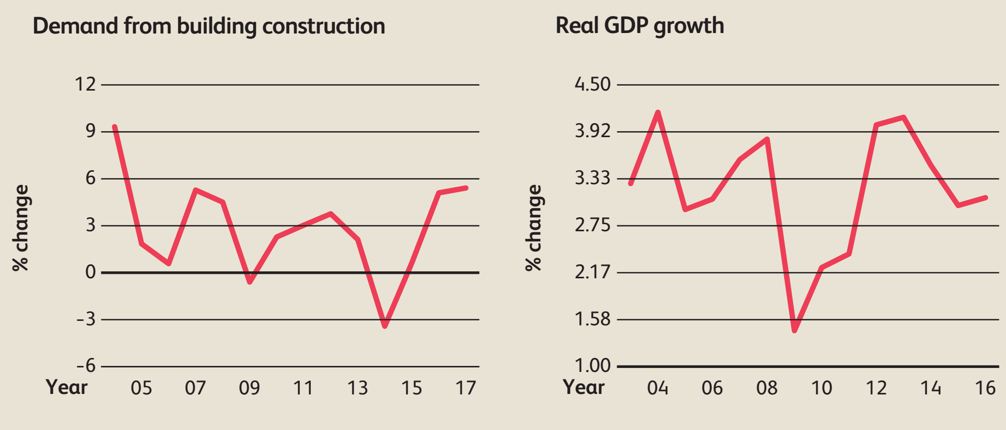
However, in 2010-11 the industry will commence a gradual recovery with industry revenue expected grow by 3.0% to generate sales of $3.4 billion. However, growth rates will then fall back in line with average levels with the industry expected to grow by an additional 1.6% in 2011-12.

Consistent with the industry's mature status, growth will be modest in the next five years; revenue growth will average 1.6% per annum, to reach an estimated $3.7 billion in 2015-16. Over the same period, the industry will be gradually shaped by new variables including those associated with green perceptions, resource efficiency and green public procurement policies. This will cause an increased focus on eco-innovation and green growth. Nanotechnology will gradually come to the fore as it is increasingly used to create new properties of coatings that enhance environmental protection and contribute to sustainability.

Key External Drivers

Demand from building construction

One key demand determinant is the level of activity in the Construction division. This is particularly important for the architectural and decorative product segment, with the level of activity in this market segment affecting the level of demand from both trade painters and DIY painters. Thus, the downturn in the Construction division will have adverse



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Industry Performance

Key External Drivers continued

implications for industry participants operating in this market segment.

Real GDP growth

The level of activity within the general economy is important to the Paint Manufacturing industry given its influence on construction and industrial activity levels, which are key market segments for paint manufacturers. The contraction in industry growth in 2008-09 in line with the recessionary conditions is evidence of this.

Demand from industrial machinery and equipment manufacturing

One of the primary determinants influencing coatings demand is the level of activity occurring in key manufacturing industries. This is because the level of demand for industrial coatings is a function of the level of demand and production of specific end-use manufactured products. Thus the level of activity in certain industrial machinery and equipment manufacturing industries is translated into varying demand levels for upstream paint and coatings products.

Demand from motor vehicle and part manufacturing

The largest end-user of industrial paints is the Motor Vehicle and Part Manufacturing sector. As automotive companies rationalise operations, manufacturing may be moved off-shore, thus affecting demand for paints in Australia.

Demand from furniture, houseware, and appliance retailing

The developing strength of paint retail outlets, such as hardware superstores and warehouses, may affect the margins of operators as their buying power intensifies. Margins may also be affected if the marketing of house brands within these outlets develops strongly. Bunnings alone is thought to account for 55% of DIY sales and its recent move to import Nippon Paint from Singapore has had reverberations for the local Paint Manufacturing industry.

Current Performance

Over the five years through 2010-11, there was a cyclical slowdown in industry revenue growth. In 2010-11, the industry is expected to generate revenue of $3.4 billion, compared with $3.2 billion in 2005-06. This equates to an average annual rate of just 1.3% over the five-year period, although growth in domestic demand was marginally stronger at 1.7%. A cyclical downturn in the dwelling construction industries combined with a decline in the local automotive industries contributed to this weak performance. In the case of the latter, motor vehicle production is expected to have fallen by 5.7% per annum over the five years through 2010-11. These variables have created a challenging environment for upstream paint manufacturers. However, some segments of the industry may have benefited from increased activity levels in the construction division because of the government's various stimulus packages, including its education building program. They may also stand to benefit from rebuilding efforts following the recent natural disasters in 2010-11.

After three of years of poor revenue performance, the picture for the industry is expected to be somewhat brighter in 2010-11 as the economic recovery continues and private confidence and demand levels strengthen. Revenue is forecast to grow by 3.0% as the industry attempts to regain lost ground. The industry is expected to benefit from the significant increase in housing starts that occurred in 2009-10, even though housing starts for 2010-11 are expected to fall once more. In addition, car production levels are expected to record some growth (up 5.5%) following declines in the past two years. Further growth, albeit somewhat slower at 1.6%, is currently anticipated for 2011-12.

Having experienced a contraction of

Industry Performance

Current Performance continued

1.8% in 2008-09, industry revenue fell in 2009-10 (down 1.3%) for the second consecutive year. As in the previous year, difficult trading conditions affected the industry, with industry players contending with relatively weak demand from most market segments. According to data from the Housing Industry Association, construction activity in the new housing segment fell by 17.0% in 2008-09. This hindered demand for architectural paint during 2009-10, even though housing starts recorded a 26.0% increase during the year. Further moves to downsize operations in the Australian automotive industries had adverse implications for OEM coatings, while sluggish activity levels in the industrial economy translated into weak demand for other industrial paints.

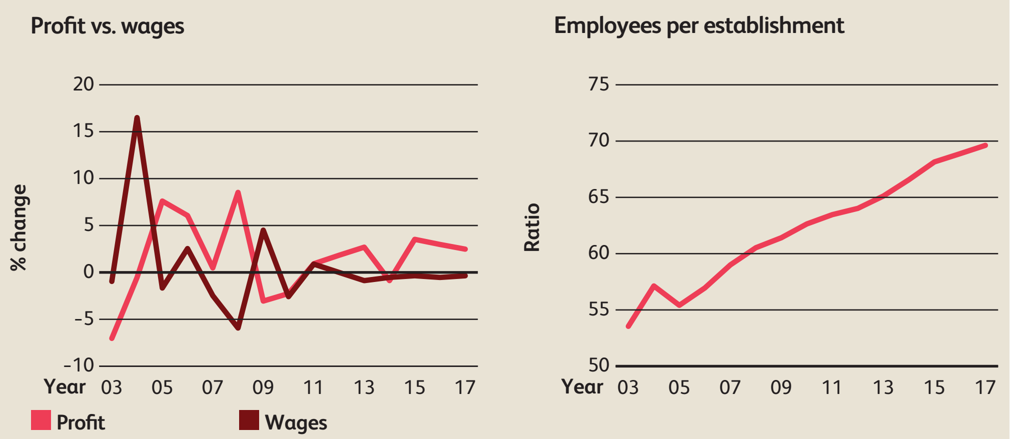
Many of these variables were also in play in earlier years, as evidenced by the weak to moderate growth rates experienced in 2005-06 through 2007-08, when real growth averaged less than 3.0% per annum. Subdued demand from the residential construction industries combined with a slowdown in renovation activity translated into lower sales of architectural paints. Interest rate increases and higher petrol prices also played a role in restraining demand for retail paints. At the same time, a slowdown in non-residential construction and a downturn in the industrial economy meant demand from these markets was subdued.

Falling profitability and employment

In recent years, the industry has suffered falling profitability due to a few key factors. Fierce price competition has damaged the growth of industry players, while the increased buying power of retail chains, such as Bunnings and Mitre 10, has constrained profitability, particularly for those manufacturers with weak distribution links. Downstream retailer consolidation and efforts by major retailers to cut inventory levels have also affected the performance of the industry.

Profitability has been adversely affected by rising raw material prices due to historically high oil and gas prices. Given the intensely competitive nature of the industry, several players were unable to fully pass on these higher costs in the form of increased prices. This resulted in margins being squeezed further. As at mid-2011, this scenario is present once again with major players expecting higher input costs, especially those related to oil-based inputs and titanium dioxide pigments.

However, a number of the major players have moved towards increasing value added in distribution through an expanded focus on customer service. Efforts have focused on further improving



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Industry Performance

Falling profitability and employment continued

operating efficiencies, which has created considerable investment in new facilities and the retirement or closure of older or less-profitable facilities.

Employment numbers are expected to fall over the five years through 2010-11 due to cost-control and efficiency-improvement measures, industry rationalisation and generally moderate to weak demand for the industry's product. Employment is expected to be 5,585 in 2010-11, compared with 5,980 in 2005-06. IBISWorld expects that the industry's wage bill will be about $570 million in 2010-11, down from $605 million in 2005-06. The closure of several manufacturing facilities can explain this fall, with most major players electing to rationalise their operations. In the case of Wattyl, the group has cut its numbers from eight to just three remaining manufacturing facilities.

Continued consolidation

The industry is highly competitive, exacerbated by prolonged difficult trading conditions. Coupled with the lack of domestic growth, rationalisation occurred to improve profit and reduce competition. Indeed, rationalisation proved to be a constant theme of the industry throughout the past five years, as players sought to overcome the effects of slowing growth in the more mature market segments and strove to achieve greater operating efficiencies. This caused some players to divest those business operations deemed unprofitable and close less-efficient manufacturing facilities.

At the same time, international players took advantage of the consolidation process to expand their operations in Australia. For example, US-based PPG Industries used this chance to gain further market share with acquisitions including Adelaide-based Protec Pty Ltd (2006) and Barloworld's Australian coatings operations (2007). The latter acquisition made PPG Industries one of the leading coatings players, with a presence in all key product and market segments.

The latest major player to be caught up in the ongoing consolidation process is Australian icon Wattyl. With its financial position remaining questionable after consecutive years of disappointing results, there had been considerable speculation that the number three player was a takeover target itself, with PPG Industries and Nippon Paint both put forward as potential buyers. However, it was US paint manufacturer Valspar that eventually acquired the business in late 2010 for just $142 million.

Also of interest was the move by Australian chemical group Orica to demerge its coatings operations so it could become purely a mining services company. Initially due to take place in February 2009, the proposed spinoff did not occur until July 2010 in the face of extreme volatility in equity and financial markets. The Duluxgroup now exists in its own right as a premier-branded company listed on the ASX.

Changing market trends

The industry has been growing towards globalisation, a trend that has gathered rapid pace over the past decade. One factor supporting this growth has been the increasing internationalisation among the industry's customers, particularly the industrial and automotive players. As these downstream players have gone international, industry operators have followed suit. The mature nature of the industry has prompted many players to enter emerging markets in the Asia-Pacific, Latin America and Eastern Europe. Recently, the global industry has become more concentrated. In Australia, a growing number of international players have entered the market, usually by acquisition, changing the type of competition and the overall industry profile.

Industry Performance

Changing market trends continued

Another significant trend has been the increasing involvement in downstream retail activities by manufacturers of architectural and decorative paint. Over the past five years, industry operators have established retail outlets catering for both trade and do-it-yourself (DIY) customers, including the Dulux Trade Centres, Bristol Decorator Centres and Wattyl Trade depots. This trend has not been confined to just the major players: Pesbon Australia Pty Ltd, who trades as the Paint Factory, is a good example.

Hardware superstore chains Bunnings and Mitre 10 are still estimated to account for the lion's share of all retail architectural coatings sold in Australia. Bunnings accounts for 55% of DIY paint sales alone. This statistic suggests that such retail giants are wielding considerable purchasing power over upstream manufacturers. Indeed, recent inventory cuts by such retailers added to the pressures felt by major coatings manufacturers operating in the decorative paints segment. The recent entry of Woolworths Ltd into the hardware channel via its acquisition of Danks Holdings Ltd has the potential to further shake up the retail scene, as will the indirect entry of Valspar (via its acquisition of Wattyl) who has a strong relationship with US hardware retailer Lowes, who is set to launch a joint venture with Woolworths.

Consolidation within certain segments of Australia's Manufacturing division has affected the performance of the Paint Manufacturing industry, given the product's status as an intermediate input. A good example is the rationalisation occurring in the automotive industries (and its associated components), which have been downsizing their local operations. Orica (former owners of the Duluxgroup) attributed its recent fall in powder coating sales to the trend by manufacturing customers to move their facilities offshore.

Downstream retail activities by manufacturers of architectural paint have been increasing

Another significant market trend over the past five years has been the move towards producing environmentally friendly paints and coating products in line with more stringent environmental regulations. This resulted in a rise in the production of powder coatings, high solids and radiation-curable and other waterborne alternatives as substitutes to the more traditional solvent-borne coatings. Thus there has been a growing emphasis on sustainability and green technology, with a number of participants introducing new eco-friendly and bio-based products.

Industry Outlook

The mature nature of the Paint Manufacturing industry will continue to constrain industry growth over the next five years. Echoing global trends, the Australian industry will undergo a period of gradual change as the nation's industrial manufacturing base continues to move offshore and environmental concerns dictate changes to the production process of various paints and coatings. Thus the mature nature of the industry will also cause some players to seek alternative growth opportunities via the development of new or innovative applications for various coatings products.

A modest recovery within the Australian marketplace will be reflected in improved demand for various paint and coatings products, particularly from the architectural and decorative product segments. For example according to the April 2011 forecasts by the Housing Institute of Australia, expenditure on

Industry Performance

Industry Outlook continued

housing renovations will rise in both 2011-12 and 2012-13. This will benefit industry participants operating within the architectural and decorative product segments. They may also stand to benefit from rebuilding efforts associated with the devastation caused by the natural disasters in late 2010 and early 2011. These developments will aid the recovery of the industry, with overall revenue expected to increase by 1.6% and 2.0% respectively in these two years. However, these gains may be partially lost with the onset of a cyclical contraction in private sector dwelling expenditure when interest rates reach their peak in 2013-14.

Demand from the trade paints segment is anticipated to fluctuate in keeping with the residential construction cycle and changes in the non-residential construction market. In the industrial paint segment, the demand for paint products by large vehicle manufacturers is likely to be moderate, in line with the rationalisation process occurring in the Automotive Parts and Accessories Manufacturing industry. Demand for paint products from other original equipment manufacturing (OEM) industrial users is likely to follow general economic trends, though any further moves to shift Australia's manufacturing base offshore will have implications for this segment.

Modest industry performance

Industry revenue growth is projected to move in a cyclical nature through the next five years, fluctuating year to year in line with changing economic, downstream manufacturing and residential and non-residential construction activity levels. The industry is expected to gradually regain recently lost ground over most of the period so that by 2015-16, industry revenue will be worth an estimated $3.67 billion, representing average growth of 1.6% per annum.

Industry profitability will in part be constrained by volatile raw material and energy costs (including packaging and transportation costs), which began rising again in mid-2010 and are still on the rise as at mid-2011. This will force participants to cut operating costs and improve efficiencies to maintain acceptable margins. Continued competitive pressures and higher production costs due to tighter environmental regulations will constrain profitability. Any new potential regulations and costs relating to carbon emissions will affect industry profits. At the same time, industry profitability will be positively affected by greater productivity, technical efficiency gains and the concerted move to offer higher-margin, higher value-added products and services. Similar strategies by other players in the coatings value chain will have implications for industry participants in this segment.

Continued industry rationalisation and a more capital-intensive production process are expected to keep employment numbers relatively flat over the next five years. By 2015-16, employment is expected to be 5,510 compared with 5,980 one decade earlier.

Continued technological advancements (including those in nanotechnologies and green nanotechnology) will underlie many of the new value-added product offerings.

Industry Performance

Product and process changes

Echoing global trends, the industry will undergo a period of gradual change as the nation's industrial manufacturing base continues to move offshore. This will have implications for the product portfolios held by the major players as downstream demand patterns change according to structural changes occurring in the industrial economy. Developments in the global chemical industry concerning the supply of various raw material inputs have the potential to affect the local Paint Manufacturing industry and bring about changes to product portfolios as players seek to reformulate products using cheaper or more accessible raw material inputs. They may also see an increased reliance on alternative biomaterial sources in paint and coating materials to reduce their reliance on petro-chemicals.

In addition, sustainability will become an increasingly important component of the industry, with a growing emphasis on environmentally friendly paints or bio-based paints. Thus product portfolios will change as environment concerns dictate changes to the production process of some paints and coatings. For example, manufacturing processes may have to be reformulated as players seek to cut their associated carbon footprints. At the same time, the need to comply with new regulations, address environmental concerns and lower carbon emissions will stimulate technological innovation.

Product portfolios will change as players seek to use cheaper and more accessible raw materials

In some instances, industry participants are expected to create a competitive edge based on their ability to offer innovative products with enhanced sustainability properties. Of note is Akzo Nobel who intends to generate nearly one third of its paint and coatings revenue from its eco-premium solutions.

In view of these developments, 'green' products are expected to become increasingly commonplace.

Additional challenges

Developments within the Australian supply chain also have the potential to influence industry performance within the immediate to near-term future, particularly US paint giant Valspar's recent purchase of Wattyl. With Valspar possessing a symbiotic relationship with US hardware retailer Lowes (who is Woolworth's joint venture partner in its foray into the Hardware Retailing industry), such a purchase has the potential to change the dynamics of the domestic paint retailing landscape should Valspar become the preferred supplier to the joint venture. At this stage, Woolworths and Lowes have plans to open 150 big-box format stores over the next five years in a move designed to usurp Bunnings' dominant position in the Hardware Retailing industry.

Regulatory changes in the Australian operating environment may also have a bearing on the industry's performance over the next five years as reforms associated with the current Regulation Reform Agenda are gradually tackled. Environmental issues will pose additional challenges for industry players. For example, growing environmental concerns will continue to pressure players to reduce volatile organic compound (VOC) emissions, while maintaining other product attributes such as cost, durability, handling ease, efficiency and aesthetics. This will be reflected in increased regulatory costs.

Industry Performance

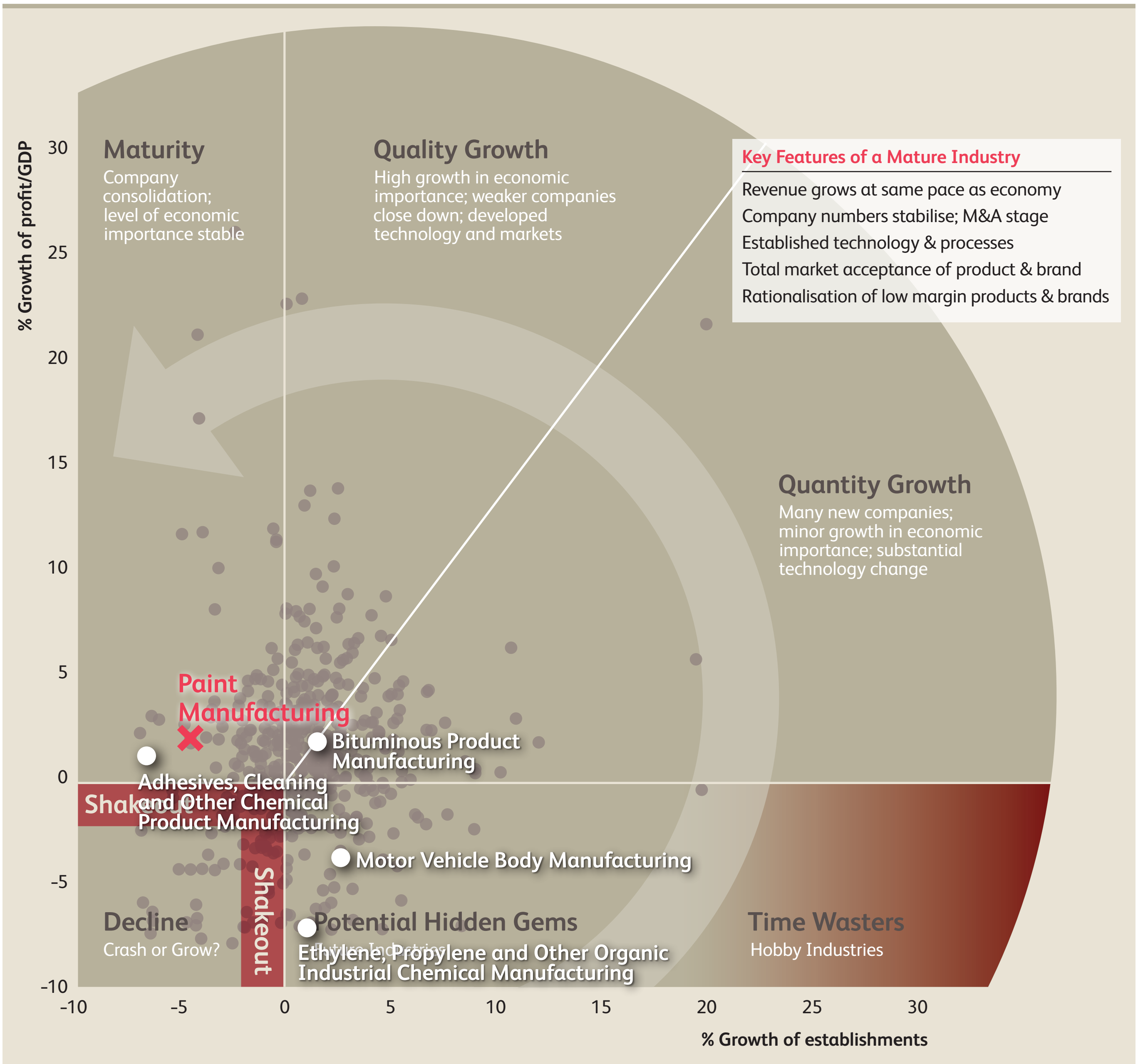
Life Cycle Stage

A slow rate of technological change is currently occurring in the industry

The rationalisation of products and brands has characterised the industry in recent years

Industry gross product has grown slower than to the general economy

Mergers and acquisitions have been a prominent feature of the industry



SOURCE: WWW.IBISWORLD.COM.AU

Industry Performance

Industry Life Cycle

This industry is **Mature**

The Paint Manufacturing industry has an extremely long life cycle, as demonstrated by the gradual pace of industry change.

The industry is in the mature phase of its life cycle. It has clearly defined product segments and a slow rate of technological change. Over the past decade, there has been rationalisation of products and brands. A significant number of mergers and acquisitions have occurred as players endeavour to increase economies of scale, market share and profitability.

The industry is expected to remain in the mature phase of its life cycle over the next five years.

Products & Markets

Supply Chain | Products & Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

C2811	**Motor Vehicle Manufacturing in Australia** Motor vehicle manufacturers require industrial coatings.
C2812	**Motor Vehicle Body Manufacturing in Australia** Manufacturers in this industry use industrial coatings.
E4111	**House Construction in Australia** This industry is a key consumer of architectural and decorative paints.
E4112	**Multi-Unit Apartment and Townhouse Construction in Australia** Operators in this industry use architectural and decorative paints.
E4244	**Painting and Decorating Services in Australia** This industry is a key downstream user of various paint and coatings products.
F4539	**Building Supplies Wholesaling in Australia** Businesses in this industry wholesale paint.
G523a	**Houseware Retailing in Australia** Retailers in this industry sell paint.
G523b	**Hardware Retailing in Australia** Companies in this industry retail paint.

KEY SELLING INDUSTRIES

C2534	**Ethylene, Propylene and Other Organic Industrial Chemical Manufacturing in Australia** Paint manufacturers source raw materials from this industry.
C2535	**Titanium Dioxide and Other Inorganic Chemical Manufacturing in Australia** This industry provides inputs for paint manufacturing.
C2549	**Adhesives, Cleaning and Other Chemical Product Manufacturing in Australia** Manufacturers in this industry provide raw materials for paint manufacturing.

Products & Services

The Paint Manufacturing industry produces a wide range of paints, timber finishes and other surface coatings for the decoration and protection of surfaces against wear, weather and corrosion. The industry also produces thinners, mastics and fillers, which service a similar market.

The largest product segment by volume is estimated to be the architectural and decorative paints segment, which accounts for roughly 50% of all paints produced. Included in this category are household paints, including interior and exterior waterborne (latex) paints and interior and exterior solvent-borne (oil) paints. As a result of the lower costs involved in producing water-based paints and environmental concerns over the waste generated by solvent-based paints, there has been a growing trend over the past two decades towards the production of water-based paints.

Consumers pay a higher price for solvent-based paints compared with water-based substitutes, thereby adding to the trend away from their use. Over the past two decades, the production of water-based paints has increased significantly to account for over 90% of all architectural and decorative paints; solvent-based paints account for just over 5% (down from 60% in the 1970s), despite the introduction of improved solvents with extremely low VOC emission levels.

In use, architectural and decorative paints are applied on-site to new and existing residential, commercial and industrial buildings and are used by consumers, painters and contractors. Broadwall paints (which include interior and exterior wall paints and ceiling paints) account for about two-thirds of all architectural and decorative paint sales. Key players within this product segment, including Duluxgroup, Wattyl

Products & Markets

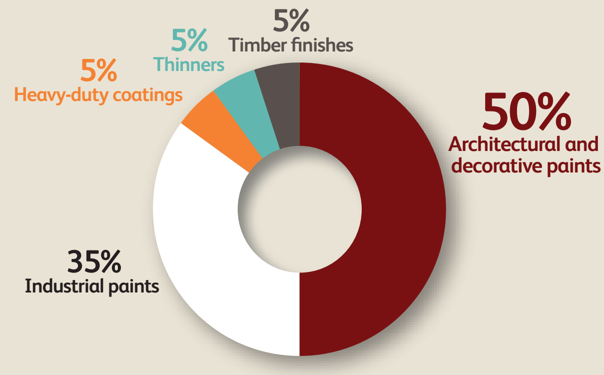
Products & Services continued

and Taubmans-Bristol, dominate the architectural and decorative paint market, although there are also a number of smaller fringe players such as Haymes Paint. Imports account for just 3% to 5% of Australian architectural and decorative paint sales.

Industrial paints, enamels and clears are the second-largest product segment, accounting for approximately 35% of domestic production. This segment encompasses coatings that are factory-applied to manufactured goods as part of the production process and OEM coatings. One of the largest identifiable subgroups is automotive products. Key players within this product segment are PPG Industries and Akzo Nobel. Wattyl and Duluxgroup also produce some industrial coatings.

Other product segments of interest are timber finishes and thinners, both of which have declined in importance. In the case of paint thinners, Australian production levels have nearly halved since the late 1990s. The other main product group is heavy-duty coatings, whose relative share has fluctuated over the years, although the gradual shift of Australia's manufacturing base offshore has had adverse implications for this particular product segment.

Products and services segmentation (2011)



Total $3.4bn

SOURCE: WWW.IBISWORLD.COM.AU

Demand Determinants

With paint essentially being an intermediate input, the demand for paint and coatings products is determined by activity levels within key consuming segments. For example, activity levels in the residential and non-residential construction markets strongly influence the architectural and decorative segment. New commencements, additions and alterations in the construction of houses, residential buildings and non-residential buildings are important factors in determining demand in this segment. As paint products are involved in one of the last stages of building construction, there can be a twelve-month to two-year lag before the effect of any expansion or contraction in building commencements is experienced by the industry.

In contrast, developments in the general economy influence the industrial segment. For example, the industrial and automotive sectors generate demand for industrial coatings for vehicles, packaging and building products such as aluminium and sheet metals, and are generally determined by the level of economic activity.

At the same time, changing building styles and fashion trends play a role in

Products & Markets

Demand Determinants continued

influencing demand. For example, the decline in demand for timber paints as a result of falling timber construction is being offset to some extent by increased consumer interest in decorative finishes. Fashion trends also influence the colour and finish of various paints.

Environmental concerns and pressures may also influence demand. For example, a number of recent regulatory initiatives have sought to cut down the level of VOCs used in coatings products. This has caused demand for such products to fall with a corresponding increase in more environmentally friendly paints. Consumer concerns over sick building syndrome have also influenced demand patterns, including the raw materials used in paint.

Trends in building styles play a role in influencing demand, especially for certain colours and finishes

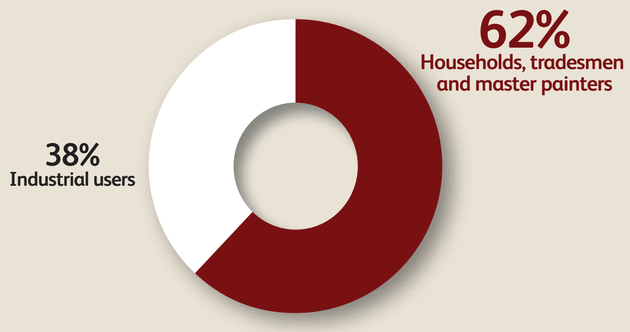
Major Markets

In general terms, the market for paints and coatings can be roughly divided into the architectural and decorative market segment and the industrial segment.

The former segment comprises retail sales to household consumers (DIY), and trade sales to tradesmen and master painters. Thought to be the larger of the two, trade sales have also increased at a faster rate than retail sales in recent times. Today, trade sales are thought to account for roughly 63% of architectural and decorative paint sales, compared with 37% to DIY customers. Distribution channels used by the major manufacturers include company owned stores, specialist paint stores, and trade dealership arrangements with corporate and independent hardware stores (such as Bunnings and Mitre 10) and mass merchandisers (such as Kmart). In 2005-06, retail sales of paints, enamels, varnishes, stains, thinners and paint removers was thought to have been in the order of $672 million.

In contrast, the industrial segment covers industrial coatings supplied to various industries usually formulated and produced for specific requirements. For example, coatings are produced for vehicles, packaging, and building products, such as aluminium and sheet metals. Coatings

Major market segmentation (2011)



Total $3.4bn

SOURCE: WWW.IBISWORLD.COM.AU

Products & Markets

Major Markets continued

supplied to the automotive industry for both original equipment and refinish on vehicles is the largest single submarket within this segment.

In recent years, sales made to the overall architectural and decorative segment have tended to gradually increase in relative importance.

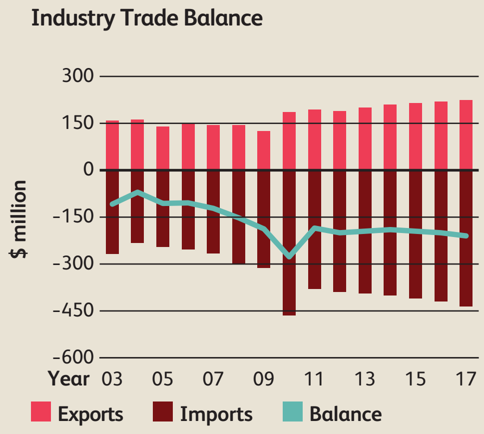
International Trade

Level & Trend
Exports in the industry are **Medium** and **Increasing**

Imports in the industry are **Medium** and **Increasing**

Insulated from the world paint market, Australian paint imports and exports do not significantly influence the local industry, with both accounting for minor shares of domestic demand and revenue, respectively. This reflects the nature of the product involved, as paint is a high-volume, low-value item that does not lend itself to international trade because it requires special packaging and transportation procedures.

Historically, imports have supplied between 4% and 7% of domestic demand, although in recent years this proportion has risen to between 9% and 10%. In general terms, imports traditionally catered for specialised segments of the market not supplied by local manufacturers, although the 2008 decision by big-box hardware retailer Bunnings to import Nippon Paint has changed this scenario somewhat; in the face of dissatisfaction with Wattyl's supply-chain management strategies, Bunnings made the decision to import Nippon Paint from Singapore. This is despite the fact that the high ratio of freight costs to product values and the



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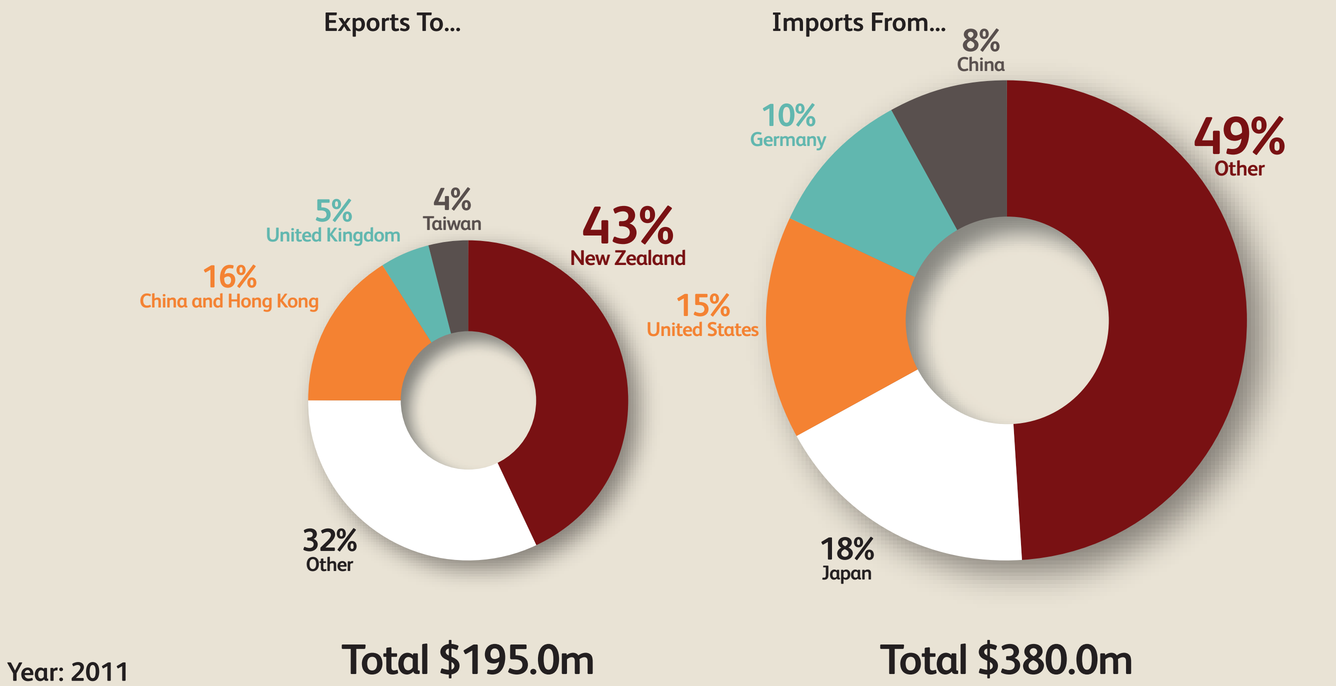


Year: 2011
SIZE OF CHARTS DOES NOT REPRESENT ACTUAL DATA
SOURCE: ABS

Products & Markets

International Trade continued

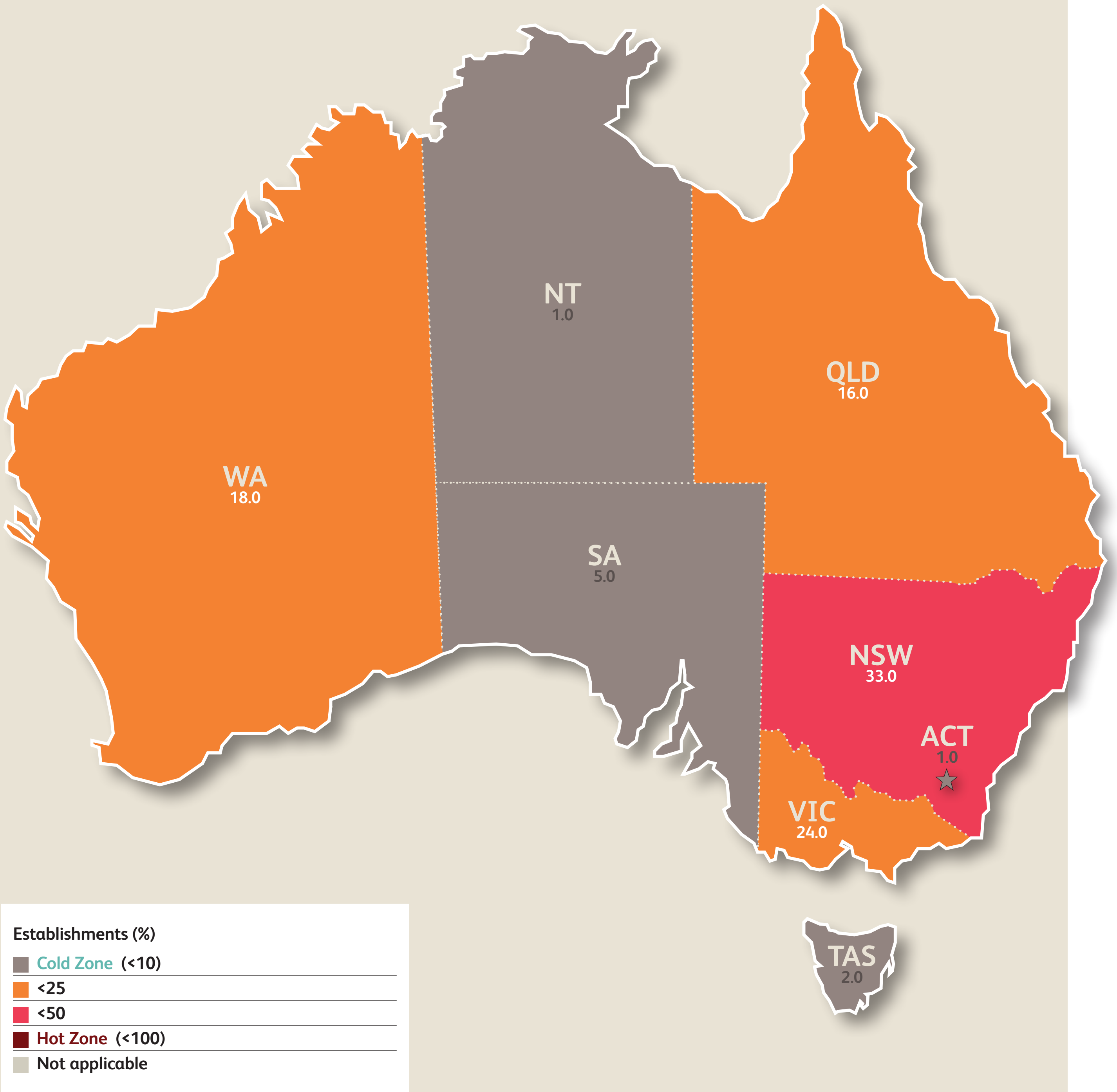
need to manufacture to suit Australian conditions has previously served to protect the local industry from import competition in major market segments. In 2009-10, Australia imported $464 million worth of paint products, representing approximately 13% of domestic demand. Major sources of imports include Japan (Nippon Paint), Germany (home of BASF Coatings), the Netherlands (Akzo Nobel), the United States and China.

Exports traditionally generated about 2% to 3% of industry revenue, though in recent years this increased to 4% to 6%. Much of this growth has been associated with the expansion of infrastructure activity in the Asian region. In 2009-10 industry exports amounted to $187 million, or nearly 6% of industry revenue. As has tended to be the case in the past, New Zealand is the main export market, although its relative share has declined while markets such as China and Hong Kong have increased in importance.

Having contracted in 2008-09 in the face of the global economic crisis, both exports and import levels recovered strongly in 2009-10. Further export growth is expected in 2010-11, as infrastructure activity continues in the Asia Pacific region. However, imports are expected to be negatively affected by Bunnings's decision to stop stocking Nippon Paints at the end of 2010. With exports expected to be in the order of $195 million in 2010-11, the trade deficit for this industry may actually experience a small drop, although imports of roughly $380 million will satisfy an estimated 11% of domestic demand.

Products & Markets

Business Locations 2011



SOURCE: WWW.IBISWORLD.COM.AU

Products & Markets

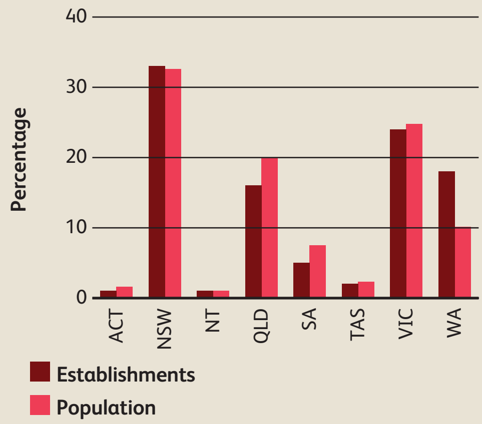
Business Locations

Paint production units are located in the most populous and industrialised states, being New South Wales and Victoria. As at June 2007, these two states accounted for approximately 63% of total industry locations, which is roughly in line with historical trends. In 2006-07, they also accounted for roughly 65% of both industry employment numbers and industry sales.

At the same time, on the basis of industry establishment numbers, Victoria has experienced a marginal decline in recent years accounting for 27% of all establishment numbers in 2007, compared with 30% in 1998. New South Wales has also experienced a slight decline in relative importance, falling from 37% in 1998 to 35% in 2007. At the same time, Queensland experienced a marginal increase in relative importance, accounting for 21% of all establishment numbers in 2007, however, this has decreased most recently down to 16% of establishment numbers.

The high cost of freight relative to product value has encouraged the establishment of a number of production units close to major markets, with freight savings offsetting the forgone economies of scale. In the past in particular, the cost of transporting prepared paint was an important variable in explaining the existence of a relatively large number of small and medium-size paint manufacturers who operated on a regional basis. At the same time however, a number of players have closed manufacturing facilities down in recent years as they have sought to achieve higher operating efficiencies.

Distribution of establishments vs. population



SOURCE: WWW.IBISWORLD.COM.AU

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalisation

Market Share Concentration

Level
Concentration in this industry is **Medium**

While aggregate concentration for the Australian paint industries is considered to be high, it is slightly lower at the manufacturing level due to the existence of distinctive product and market segments. At this level IBISWorld estimates that the four largest participants supply just under 50% of the market for industry products, which suggests a medium level of concentration. The largest four players are thought to be Akzo Nobel, Dulux, PPG Industries and Wattyl-Valspar.

In recent years, the major players have continued to gain market share at the expense of smaller firms with weaker distribution links and lower cost competitiveness; though many niche players are maintaining their shares in specialised segments of the industry.

The consolidation trends that have characterised the industry in recent years have also contributed to a rising level of concentration. Had the proposed Barloworld-Wattyl merger been allowed to proceed, the two largest suppliers within the architectural and decorative paint segment would have controlled 88% of the market.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Effective cost controls
As the paint manufacturing industry is highly competitive, cost competitiveness is essential, especially in the mainstream market.

Access to niche markets
Given the mature nature of the industry, operators must endeavour to control a dominant position in a profitable niche market.

Ability to control total supply on market
If not operating in a niche market, operators must become a major player, controlling at least 20% of industry revenue and operating in most key markets.

Access to the latest available and most efficient technology and techniques
Research and development, and extensive technical links with domestic and international manufacturers and suppliers, ensure product innovation will be maintained.

Provision of superior after sales service
This is becoming an increasingly important component of the marketing of a manufacturer's products in distribution outlets and include colour matching machines, product literature and customer information.

Establishment of brand names
To maintain company growth, operators must continue to develop brand and product innovation to differentiate themselves from their rivals.

Control of distribution arrangements
An established and comprehensive web of distribution outlets for gaining access to end-users is becoming increasingly essential.

Cost Structure Benchmarks

Industry profitability will vary on a year-by-year basis in line with changing input costs. The larger vertically integrated players tend to have more control over their cost structure as they are in a stronger position to absorb rising raw material costs. In 2008-09, industry participants were initially affected by higher input costs in line with the weak Australian dollar, which made imported raw materials relatively more expensive despite the fact that their price was falling on the global chemical stage.

As can be seen, the cost of goods sold is the single largest expense item (representing 70% of sales in 2010-11). This reflects the fact that the paint manufacturing process primarily

Competitive Landscape

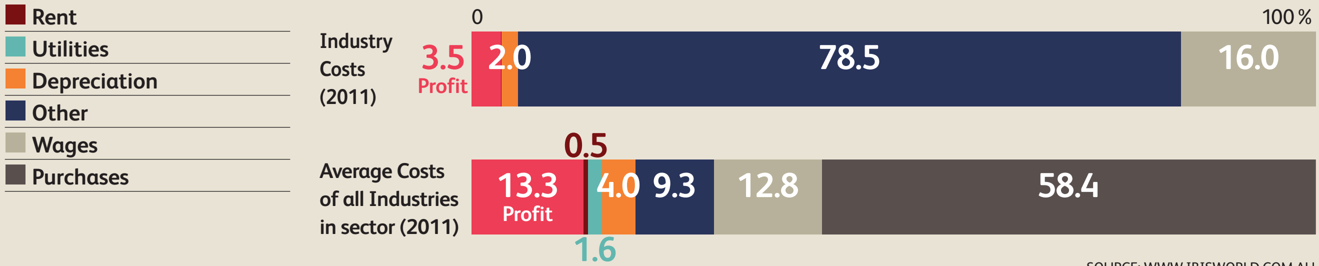
Cost Structure Benchmarks continued

consists of blending a wide range of raw materials by batch process. Included within these costs would be the cost of pigments (including titanium dioxide pigments), which are now thought to account for one-fifth of raw material costs, epoxy and other resins (which now account for as much as one half of all raw materials costs), solvents, fillers and additives. In turn, many of these are petroleum based meaning they will vary in line with changing oil prices. Packaging costs are also included within this cost item. In recent times, the price of pigments, resins and other dyes and additives, along with packaging costs have been on the rise, which has affected the cost structure of industry participants. Thus, the efficient use of raw materials is a critical cost component.

The second largest expense tends to be labour costs (representing an estimated 16% of sales in 2010-11), reflecting the fact that the paint manufacturing process is only semi-automated.

Distribution and advertising costs make up a significant proportion of overheads incurred by operators. These are included within 'other costs', as are environmental costs, which have also tended to increase in recent years.

Industry Costs and Average Sector Costs



SOURCE: WWW.IBISWORLD.COM.AU

Basis of Competition

Level & Trend
Competition in this industry is **High** and the trend is **Increasing**

Industry participants face competitive pressures from various rivals who may operate on a state, national or international scale. Industry participants also compete at various stages along the supply chain (i.e. not just at the manufacturing stage but also in the distribution and retail of paints and coatings). The likes of Orica and Wattyl operate nationwide networks of company owned stores. They also possess strong relationships with downstream distributors including hardware giants such as Bunnings, mass merchandisers such as Kmart and independent paint specialists.

Competition within the industry is essentially price based, particularly in the architectural and decorative segment, where product performance is perceived as relatively undifferentiated. Although in recent times, product quality, product range and product innovation have become increasingly important. This means industry operators must either become a major player in key product markets usually through cost advantage, or they must differentiate their product and become a market leader in a niche segment. Scale economies are difficult to achieve given that a substantial part of the market involves the production of small batches formulated according to customer requirements. Within the DIY market segment, architectural and decorative paints are generally split between three price points, namely budget, premium, and ultra premium.

Customers' perceptions of the product and customer service have also become increasingly important in recent years. In recent times, branding strategies have moved away from technology-laden brand names in favour of those that

Competitive Landscape

Basis of Competition continued

describe their benefits to the customer. At the DIY and trade level, major players have introduced colour matching automation and product literature services to assist householders and tradesmen in developing product knowledge. For example, Dulux (Orica) offers an online colour scheming tool (Mycolour), an online visualisation tool which allows the viewing of colours on a 'virtual wall' while Wattyl has recently launched a new online colour designer program with over 500 colours. Ease of product application and applicator cleaning are also increasingly becoming a new means of differentiating products, as is the production of environmentally friendly paints.

In the industrial segment, the technical performance of the product is often the main competitive differentiator; in many instances this allows industry players to build niche businesses which command high margins. Factors such as product quality and customer service are also important in this segment. Thus, in this segment competition is not primarily price based. Cost advantage can be generated by operators from larger batch sizes and the application of automation. Economies of scale and global ownership are becoming particularly important in the industrial segment as testified by Orica's 1998 decision to divest its Technical Coatings division as a global business requiring global technology and global customer relationships. Trends towards global engineering and the need to follow customers as they move to global operations are serving to change the profile of the coatings industry on a global scale.

Competition is essentially price based, particularly in the architectural and decorative paints segment

Barriers to Entry

Level & Trend
Barriers to Entry in this industry are **High** and **Increasing**

As with a number of other mature industries, the Australian Paint Manufacturing industry is characterised by a high degree of market concentration, strong brand dominance, established and comprehensive distribution networks and heavy competition, which serves to constrain profit margins. These pose formidable barriers to entry as does the level of capital and technical skills required to establish manufacturing facilities. Growing levels of globalisation are also serving to raise entry barriers as industry players compete in both local and international markets in line with their customer's operations.

The ACCC in its preliminary statement of issues released in March 2006 in relation to Barloworld's proposed acquisition of Wattyl Ltd listed the level of vertical integration in the major players (which extends down to the operation of company owned stores) as a major barrier to entry and expansion.

Barriers to entry checklist	Level
Competition	High
Concentration	Medium
Life cycle stage	Mature
Capital intensity	Medium
Technology change	Low
Regulation and policy	Medium
Industry assistance	Low

SOURCE: WWW.IBISWORLD.COM.AU

The existence of extensive distribution arrangements with trade dealerships with hardware and paint specialist resellers (who operate on a commission basis) also acts as a similar barrier.

Brand awareness was also listed with the ACCC deeming that there is a considerable degree of brand awareness among Australian consumers for the well recognised brands (such as Dulux, Taubmans and Wattyl) of the three major incumbents (Orica, Wattyl and Barloworld).

Competitive Landscape

Barriers to Entry continued

In its final decision announced in July 2006, the ACCC also made reference to the fact that brand awareness and access to reseller's shelf space would prevent existing smaller and niche competitors from expanding and preventing price increases by the merged firm. It again highlighted the point that fringe suppliers (such as Haymes and Rockcote) face substantial barriers to expansion, including the existence of vertical integration into retailing by the major players, which serves to limit fringe suppliers access to the DIY and trade segments, including through trade dealership arrangements with, and financial incentives for architectural and decorative paint retailers.

Thus in the short term, barriers to entry in general will continue to rise as the industry undergoes further change and rationalisation. However, some opportunities may exist for smaller players operating in niche market segments (such as texture coatings) as the leading global players break up their wider portfolios to focus on one or two core international businesses.

Industry Globalisation

Level & Trend
Globalisation in this industry is **Medium** and the trend is **Increasing**

Over past five years, the coatings market has become increasingly global in nature. One of the factors underlying this trend has been the increasing degree of internationalisation among the industry's customers, particularly the industrial and automotive players; as they have gone international, industry operators have followed suit. Concentration has also increased in the global industry. There are roughly 1,400 coating manufacturers worldwide, of which the largest has a market share of 10% (the combined operations of Akzo Nobel and ICI Paints).

On the domestic front, the industry is dominated by players who operate on a global scale. These include foreign based companies such as Akzo Nobel of the Netherlands (currently the number one global player in the coatings market), PPG Industries of the United States (the number two global player), BASF Coatings of Germany (number seven global player) and Valspar of the United States (number five global player). Other

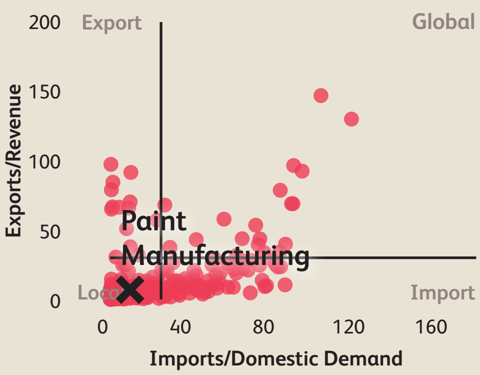
Players operating on a global scale, such as BASF Coatings of Germany, dominate the industry

International trade is a major determinant of an industry's level of globalisation.

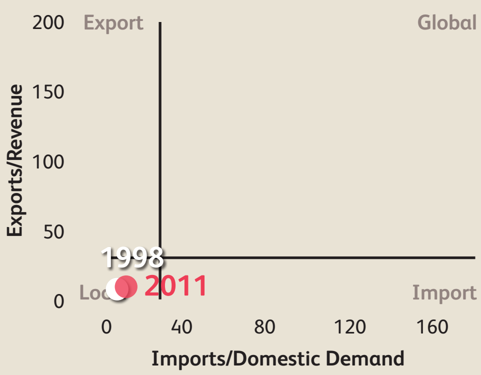
Exports offer growth opportunities for firms. However there are legal, economic and political risks associated with dealing in foreign countries.

Import competition can bring a greater risk for companies as foreign producers satisfy domestic demand that local firms would otherwise supply.

Trade Globalisation



Going Global: Paint Manufacturing 1998-2011



SOURCE: WWW.IBISWORLD.COM.AU

Competitive Landscape

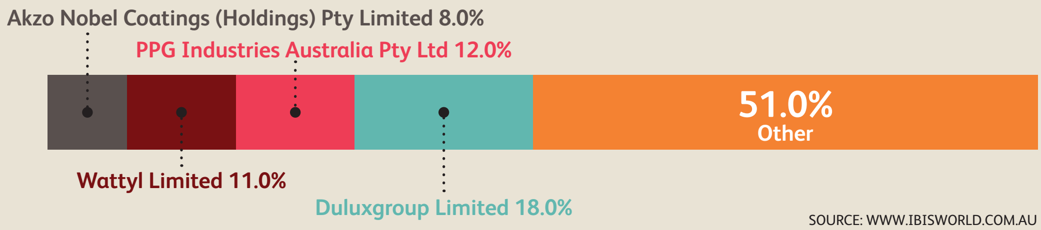
Industry Globalisation continued

major players in the industry that operate on an international scale include Australia-based chemical group Orica who has manufacturing operations in Australia, New Zealand and Papua New Guinea. In addition, it operates in China, Hong Kong, Singapore and Malaysia through its international business, DGL International. In November 2008, Orica acquired a small decorative coatings business (Sopel) in Shanghai, China, in line with its strategy of pursuing opportunities within emerging and rapidly developing markets.

Major Companies

Duluxgroup Limited | PPG Industries Australia Pty Ltd
Wattyl Limited | Akzo Nobel Coatings (Holdings) Pty Limited | Other

Major players
(Market share)



SOURCE: WWW.IBISWORLD.COM.AU

Player Performance

Duluxgroup Limited
Market share: 18.0 %

Industry Brand Names
Berger
Dulux
British Paints
Cabot
Feast Watson
Selleys

Duluxgroup Limited is the latest new entity operating with the Paint Manufacturing industry, though its roots can be traced back to 1918. Formerly part of Orica Group, Duluxgroup Limited became an Australian owned, publicly listed company in July 2010. Duluxgroup manufactures a range of premium branded paints and coatings.

Duluxgroup is one of Australia's largest manufacturers and suppliers of surface coatings, occupying the number one spot within several key product segments, such as the decorative coatings, powder coatings and wood care coatings markets. The group employs over 2,500 people and has operations in Australia, New Zealand and Papua New Guinea. The group also operates under the DGL International brand in Malaysia, Singapore, Hong Kong, Vietnam and China.

Duluxgroup's products include paints and stains, texture coatings, powder coatings, paint preparation products, adhesives, household cleaners, and car and garden care products. Within Australia, manufacturing facilities are located in Dandenong, VIC (two sites for paints and stains and powder coatings); Beverley, SA (texture coatings); Rocklea, QLD (decorative, texture and wood care); and Padstow, NSW (home improvement). It also operates research facilities in Clayton, VIC.

The group's business segments are Paints Australia, Paints New Zealand, Selleys-Yates, and offshore and other operations. Duluxgroup's Paints Australia segment includes its retail and trade paints, protective coatings, textile coatings and Cabot wood care operations. Powder and industrial coatings are included in its offshore and other operations business segment.

As part of Orica, the Duluxgroup was the largest paint and paint preparation business in Australia and New Zealand, with 25,000 customers and 10,000 products. Through its decorative coatings products, Orica stood out as the dominant player in the architectural paint segment, with brands under the company banner including Dulux, British Paints, Berger, Walpamur and Acratex. Dulux was recognised as the cornerstone of Orica's paint business and the number one seller in the industry. The 1988 acquisition of British-Berger Paints, the then-second largest paint manufacturer, played an important role in boosting Orica's dominance in the market, which was further extended by its acquisition of Selleys. Selleys manufactures home handyman and paint preparation products, including a range of mastics, fillers and putties.

The Duluxgroup generated sales of $964 million for the year ending September 2010, up 2.0% from pro-forma results of $945 million for the previous year. Of this figure, $556 million (58%) came from its Australian paint operations, compared with $79 million for its New Zealand paint operations and $231 (24%) from its Yates/Selleys operations. The remainder was derived from its offshore operations. Within its Australian paint operations, sales were 5% higher (up from $530 million in the previous year) as a result of higher volumes and some market share gain. While the retail business was affected by soft market conditions following the withdrawal of government stimulus initiatives, the trade business benefited from stronger market conditions

Major Companies

Player Performance continued

(reflecting in part government infrastructure initiatives) and the commencement of a recovery in new housing investment. EBIT for its Australian paint operations totalled $92 million, up 6.0% on the previous year ($87 million) in the face of higher sales.

In the next few years, the Duluxgroup will focus on growing its market share leadership position in Australia, New Zealand and Papua New Guinea. At the same time, it will seek to expand its position in high-growth Asian markets. To this end, it may consider acquisitions in Australia and Asia. It will also look at building on and leveraging its Australian trade network and building strategic distribution in key retail channels.

The company has recently completed a new protective coatings factory in Melbourne while plans also exist to invest in asset renewal projects at its Rocklea and Padstow plants.

As at February 2011, the company had achieved modest growth in the Australian paints market, led by the trade segment. In the same year, production levels were adversely affected by the Queensland floods, which caused damage and temporary closure of its paint manufacturing facilities in Rocklea. While water-based paint production has since resumed and is back at pre-flood levels, solvent-based paint production is not due to recommence until July 2011. In the meantime, supply is being augmented by alternative manufacturing arrangements at other company-owned plants and with contracted third party providers. The company believes that this move will help it not only rebuild stocks but also provide it with extra capacity to meet demand arising from repair and rebuilding works in the flood affected areas. Despite some disruption of sales for its retail business, it is not anticipating any loss of market share.

For the first half of 2010-11, sales of $491 million were essentially in line with the previous corresponding period although earnings for its Australian Paints business were up 4.9% on the prior period. During the period, it invested in its premium brands and capabilities to ensure the company is well positioned for ongoing growth. Over the next six month period it is expecting increased cost pressures, particularly for titanium dioxide and oil-based inputs. At the same time, it is still expecting to outperform the Australian marketplace, which is forecast to post modest growth.

Player Performance

PPG Industries Australia Pty Ltd
Market share: 12.0 %

Operating primarily in the technical coatings segment of the Paint Manufacturing industry, PPG Industries Australia (PPG) is a subsidiary of US giant, PPG Industries. PPG Industries is the second-largest global coatings company. It operates 121 manufacturing facilities in 41 countries and generated sales worth US$13 billion in 2010.

Involved principally in the manufacture, import and sale of coatings and resins, chemicals and glass, PPG Industries Australia generated sales of $475.5 million in 2008, up from $368.0 million in 2007. This marked increase reflected its acquisition of Barloworld during 2007. However, in 2009 sales declined 6.6% due to weak market conditions. Operating profit after income tax was $5.4 million, less than half that of the previous year. In 2009, PPG employed 1,244 people, down from 1,387 in the previous year.

Prior to its acquisition of Barloworld, PPG operated two plants in Australia (in Clayton, VIC, and Gillman, SA) and employed roughly 800 people. It now also operates the Barloworld plant in Villawood, NSW. The Clayton plant is thought to be the largest industrial paint manufacturing plant in Australia and is involved in the production of automotive refinish, industrial coatings, packaging coatings, protective coatings and marine coatings. The Gillman plant near Adelaide had been acquired as part of the 2006 Protec purchase and is involved in automotive refinish and

Major Companies

Player Performance continued

industrial coatings.

In addition to its technical coatings operations, PPG is involved in the manufacture and supply of architectural and decorative paints under the brand names Manor Hall and Pure Performance. Entering this market segment in 2003, PPG possessed only a very small market share despite being a major international player in the architectural and decorative paints segment. However, this changed following its 2007 purchase of Barloworld Coatings Australia. The Villawood facilities manufacture Taubmans, Bristol and White Knight brands of architectural coatings. PPG operates approximately 50 company-owned stores in Australia.

A history of acquisitions

The US parent, PPG Industries, first entered the Australian market in August 1998 following its $215 million acquisition of the technical coatings business of Orica, which included Orica's automotive refinish, automotive original equipment, coil, packaging and production coatings products. With sales valued at approximately $165 million per year, IBISWorld estimates that this acquisition would have given PPG an initial 10% stake in Australia's Paint Manufacturing industry. The acquisition was to be the foundation on which PPG would build a substantial coatings business presence throughout the southern Pacific region. Its next acquisition, in 2006, was Protec Pty Ltd, an Adelaide-based manufacturer and distributor of automotive refinish coatings and light industrial and high-performance coatings. In the same year, it acquired the performance coatings and finishes business of US-based Ameron International Corp., which had operations in Australia and New Zealand.

Its latest acquisition of note was Barloworld Coatings Australia, which manufactured and sold Taubmans, Bristol and White Knight brands of architectural paints. According to PPG, the purchase would allow it to become the leading coatings manufacturer operating in all market segments and channels in Australia. Completed in late 2007, the financial terms of the deal were not disclosed. Following its purchase, Taubmans gained market share from Wattyl.

Looking forward, growth drivers for the group include its aerospace, optical and specialty products and its protective and marine coatings businesses. Key regions include Asia, Eastern Europe and Latin America. While PPG is anticipating higher demand in 2011 relative to 2010, it will remain focused on continued cost management.

PPG Industries Australia Pty Ltd – financial performance

Year*	Sales ($ million)	(% change)	NPAT ($ million)	(% change)	Employees	(% change)
2005	220.4	1.0	25.1	10.6	501	16.2
2006	246.6	11.9	17.7	-29.5	501	0.0
2007	368.0	49.2	31.4	77.4	1,156	130.7
2008	475.5	29.2	14.2	-54.8	1,387	20.0
2009	444.0	-6.6	5.4	-62.0	1,244	-10.3

*Year end December

SOURCE: IBISWORLD

Major Companies

Player Performance

Wattyl Limited
Market share: 11.0 %

With its origins dating back to 1915, Wattyl Limited has grown significantly to become one of Australia's largest paint and surface coatings manufacturers. The company is involved in the production and marketing of paints, lacquers, varnishes and special-purpose coatings in Australia and New Zealand.

In Australia, Wattyl operates four business segments: Wattyl retail, Wattyl trade, Solver and industrial. Following a period of rationalisation, the company operates just three manufacturing facilities located in Blacktown, NSW; Footscray, VIC; and Kilburn, SA. Having lost several key retail contracts, retail paints are currently sold in a number of hardware stores including Mitre 10, Paint Place, Paint Spot and Paint Right. Wattyl has 60 company stores located throughout Australia. Solver products are sold in both retail and trade channels. The current mix is 60% trade and 40% retail.

In 2009-10, Wattyl generated sales revenue of $386 million, of which 90% was generated from its Australian operations. In Australia, Wattyl manufactures approximately 40 million litres of paint per annum, of which 30% is geared towards the consumer market. Key brands in the Australian market include Estapol, Killrust, Solagard, Interior Design, Pascal and Aspects, the Professional Choice, Granosite, Pascal Trade, Tradesman, Optima, Sunfast and Solver. Its architectural and decorative product range is thought to account for about 80% of its Australian revenue. While it once claimed to be the largest Australian owned paint manufacturer, in September 2010 it was acquired by US coatings manufacturer Valspar, which currently has operations in 25 countries. Describing itself as a leading global coatings and paints manufacturer and distributor, Valspar generated sales of US$3.2 million in 2010 of which 56% was derived from its coatings operations with the remainder generated by its paints businesses.

Recent strategies

Wattyl has focused its management and financial resources on strengthening its core Australian and New Zealand businesses. In the Australian market, the emphasis has been on rebuilding its retail share and building its trade share. To this end, it has increased its marketing spend as part of its strategy of ongoing brand support. Wattyl has also looked to supply chain improvements with the aim of increasing manufacturing productivity and improving customer service.

In November 2008, it was reported that the company was targeting annual savings of $20 million through cost-reduction initiatives, such as job cuts and the temporary closure of one manufacturing facility. In early 2009, the company announced additional cost cuts and plans to sell some of its properties to cut its $100 million debt facility.

Wattyl stated that it had been adversely affected by the move by Bunnings to import architectural and decorative paint, with Bunnings having removed Wattyl interior paints from its stores. While it was initially expecting to lose further market share in the wake of this development, it was hoping to progressively regain lost ground with the launch of a new colour system and revamped interior broadwall offer. However, it was reported that Wattyl had also lost market share to Taubmans and Orica, having lost several homebrand contracts with independent paint wholesalers, including the Danks Group, which supplies the Home Hardware and Thrifty Link chains. It had also been adversely affected by Big W's decision to no longer stock paint.

Financial performance

After four years of disappointing results, Wattyl recorded some growth in 2009-10, with sales totalling $386.5 million (up 1.3%) and profits after tax (before non-recurring items) of $6.9 million. Australian sales were about $346.0 million, marginally higher than the previous year despite lower volumes in the architectural and decorative market segment. During the year, Wattyl rolled out new products and range updates in an attempt to stem market share losses;

Major Companies

Player Performance continued

five brands were updated in late 2009. At the same time, the focus was on revenue growth, the strengthening of Wattyl brands and controlling input costs.

In 2008-09, Wattyl posted sales of $381.4 million, its second consecutive fall; in comparison, sales were worth $420.3 million in 2007-08. This figure also compares unfavourably with a five-year high of $426.8 million in 2006-07. Australian sales amounted to $341.0 million, 8.0% lower than in the previous year ($371.0 million) because of a slump in the housing market, reduced demand for industrial products and retail product range deletions. Underlying EBIT of $6.6 million was adversely affected by the combination of an uncertain economic environment, a suppressed housing market and product range deletions by certain retailers including Bunnings and Big W. In terms of EBITDA-to-sales ratios, the year saw a new five-year low of just 17.2% compared with 39.7% in 2006-07. This significant fall occurred in spite of efforts to lower the company's cost base and cut inventory levels.

Difficult trading conditions are a recurring theme for Wattyl, despite efforts to restructure its operations in recent years. The company's 2008-09 annual report references the effects of an uncertain economic environment, a decline in housing activity, the entry of imported products into an already competitive market, product range deletions at some retailers and unusually high input cost pressures. However, this does not fully explain the company's weak performance in recent years. Despite having increased advertising expenditure and product launches, and refined brand and channel strategies, Wattyl still lost market share. Its weak position has meant that it has been less successful in implementing price increases to cover inflationary cost pressures.

Other developments

Over the past few years, Wattyl was the subject of potential takeover bids. These include a $275.0 million indicative potential takeover bid from Allco Equity Partners (AEP) in 2005 and an off-market $321.0 million bid from rival player Barloworld Ltd in 2006. The latter was denied by the ACCC on anti-competitive grounds, as it stated that the merged Wattyl-Barloworld would lead to reduced competition and higher prices for consumers. Rumours also circulated involving both Nippon Paint and PPG Industries, although in these instances, the interest lay more with acquiring Wattyl's brands than the company itself. Pigment manufacturer Acquos, owned by the De Fazio family, was linked to takeover rumours after acquiring a strategic 5.2% stake in Wattyl.

However, Wattyl was purchased for just $142.0 million by US company Valspar Group. Having received the nod of approval by the ACCC in late August 2010, 99.0% of shareholders voted in favour of the proposed takeover in early September 2010.

Wattyl (New Zealand and Australian operations) – financial performance

Year	Sales ($ million)	(% change)	NPAT ($ million)	(% change)	Assets ($ million)
2005-06	425.3	0.9	4.1	-64.3	285.5
2006-07	426.8	0.4	16.6	304.9	286.3
2007-08	420.3	-1.5	11.7	-29.5	270.2
2008-09	381.4	-9.3	-1.5	N/C	229.8
2009-10	386.5	1.3	6.9	N/C	N/C

SOURCE: IBISWORLD

Major Companies

Player Performance

Akzo Nobel Coatings (Holdings) Pty Limited
Market share: 8.0 %

Headquartered in the Netherlands, Akzo Nobel NV is involved in the manufacture of coatings (two thirds of group revenue) and chemicals. The company employs 55,590 people (of which 77% were employed within its coatings businesses) and has activities in 80 countries. Sales for 2010 amounted to €14.6 billion, up 12% on the previous year. In the same year, its decorative paints operations accounted for 34% of revenue, while its performance coatings operations accounted for a further 33%. Its specialty chemicals operations accounted for the remainder. Akzo Nobel's coatings operations have expanded following its US$16 billion purchase of UK coatings and chemical manufacturer Imperial Chemical Industries (ICI) in early 2008. Akzo Nobel is a Fortune Global 500 company and is the chemicals industry leader on the Dow Jones Sustainability Indexes. It is the world's largest industrial coatings manufacturer and the global leader in decorative paints. The group entered the Australian market via its 1998 acquisition of Courtaulds, which had previously acquired Taubmans.

Today Akzo Nobel primarily operates in the industrial paints segment, producing industrial and marine paint through factories in Brisbane (5 million litres per annum) and Perth (1 million litres per annum). It claims to be one of the leading coatings players in the car repair, commercial vehicles and automotive plastic coatings segment. Akzo Nobel Car Refinishes Australia Pty Ltd supplies refinish paint, decals, support services and software for the car repair, commercial vehicle and automotive markets, with its main brands including Sikkens and Lesonal in car repair and Sikkens Autocoat in commercial vehicles. It also services automotive plastic interior components customers. During 2010 it is believed that some of its production was relocated to a customer location to take advantage of surplus recycled water as part of its sustainability program.

Sales revenue for Akzo Nobel Australia for 2009 amounted to $244 million, a marginal decline from the previous year though still up from $232 million in 2007. Net profit ($29 million) was the highest in the previous five years.

Akzo Nobel Coating's global strategy is to extend its leadership position in clearly defined product areas and specialist niche markets, which demand high levels of technical expertise and customer service. To this end, the group is investing heavily in research and development (R&D), with investments in R&D being gradually increased to reach a target figure of 4% of revenue. The strategic focus of the group is on rapid growth in the emerging markets of Asia, Eastern and Central Europe, and South and Central America through autonomous development and acquisitions. Intending to participate in the consolidation of the global coatings market, the group is pursuing a selective bolt-on acquisition strategy in conjunction with its plans for organic growth. It has pursued a restructuring program designed to improve its cost structure and create a platform for more growth.

Its acquisition of ICI consolidated its position as the world's largest manufacturer of paints and coatings. Considered a good strategic fit with its decorative coatings operations, the acquisition gave Akzo Nobel well-developed access to fast-growing markets in Asia and Latin America. In 2010, 45% of its performance coatings and 35% of its decorative paints sales were derived from high growth markets reflecting the move away from its more traditional mature markets. In the same year, 21% of total revenue was derived from the Asia-Pacific region, with a further 10% from Latin America and 6% from emerging European countries. In comparison, 39% was derived from mature European markets and 20% from North America.

In late 2008, the group implemented restructuring activity designed to reduce costs and protect margins, with a particular focus on its European decorative paints businesses. After a

Major Companies

Player Performance continued

difficult year in 2009, where volumes dropped due to global market downturns exacerbated by de-stocking effects, the focus in 2010 was on ensuring volume growth. At the same time, the group continued to aggressively invest in high-growth markets and redirect investment resources into R&D projects. During the year, there were several bolt-on acquisitions including the powder coating activities of the former Rohm & Haas from the Dow Chemical company, which transformed Akzo Nobel Coatings into the US market leader. Another important acquisition was Lindgen's Metal Decorating Coatings and Inks business, which is expected to boost its position within several markets including the Australian market. It also saw the opening of its new multi-site in Ningbo Chine, which at €275 million represents the group's largest ever investment outside of an acquisition. For 2011, it is anticipating volume challenges in key mature markets and the pressures associated with rising raw material costs.

Akzo Nobel Coatings (Holdings) Pty Limited – financial performance

Year*	Sales ($ million)	(% change)	NPAT ($ million)	(% change)	Assets ($ million)	(% change)
2006	217.2	N/C	16.7	N/C	176.9	N/C
2007	232.0	6.8	19.8	18.2	173.5	-1.9
2008	244.8	5.5	25.9	30.9	172.9	-0.3
2009	244.2	-0.2	28.9	11.6	168.7	-2.4

*Year end December

SOURCE: IBISWORLD

Other Companies

Other players in the industry include small, regional manufacturers (such as Cameleon Paints, a Western Australian manufacturer producing a wide range of quality paints) and manufacturers who occupy niche market segments with various specialist paints. The latter includes Haymes Paint, which is the official restoration paint of the National Trust of Australia; Vipond's Paints, which uses lead-free organic paint pigments; and Parr Paints Pty Ltd (Parr Paints), a small family owned business producing paint and textile coatings (latex adhesive). Another player of note is the House of Kolor that claims to be the leading manufacturer of custom finishes within the automotive custom paint product segment.

Operating Conditions

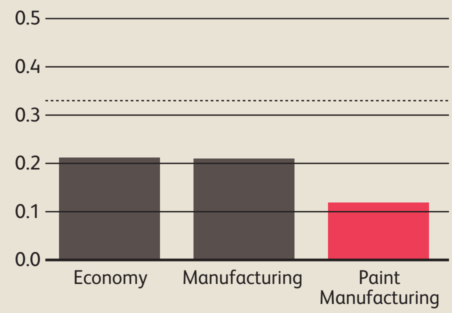
Capital Intensity | Technology & Systems | Industry Volatility
Regulation & Policy | Industry Assistance

Capital Intensity

Level
The level of capital intensity required is **Medium**

The industry is characterised by its medium level capital intensity, justified by the semi-automated production process operated by most industry participants. This has increased in recent years as companies have been forced to adopt various efficiency improving measures in the face of a highly competitive environment. However, Wattyl is currently in a non-capital intensive phase.

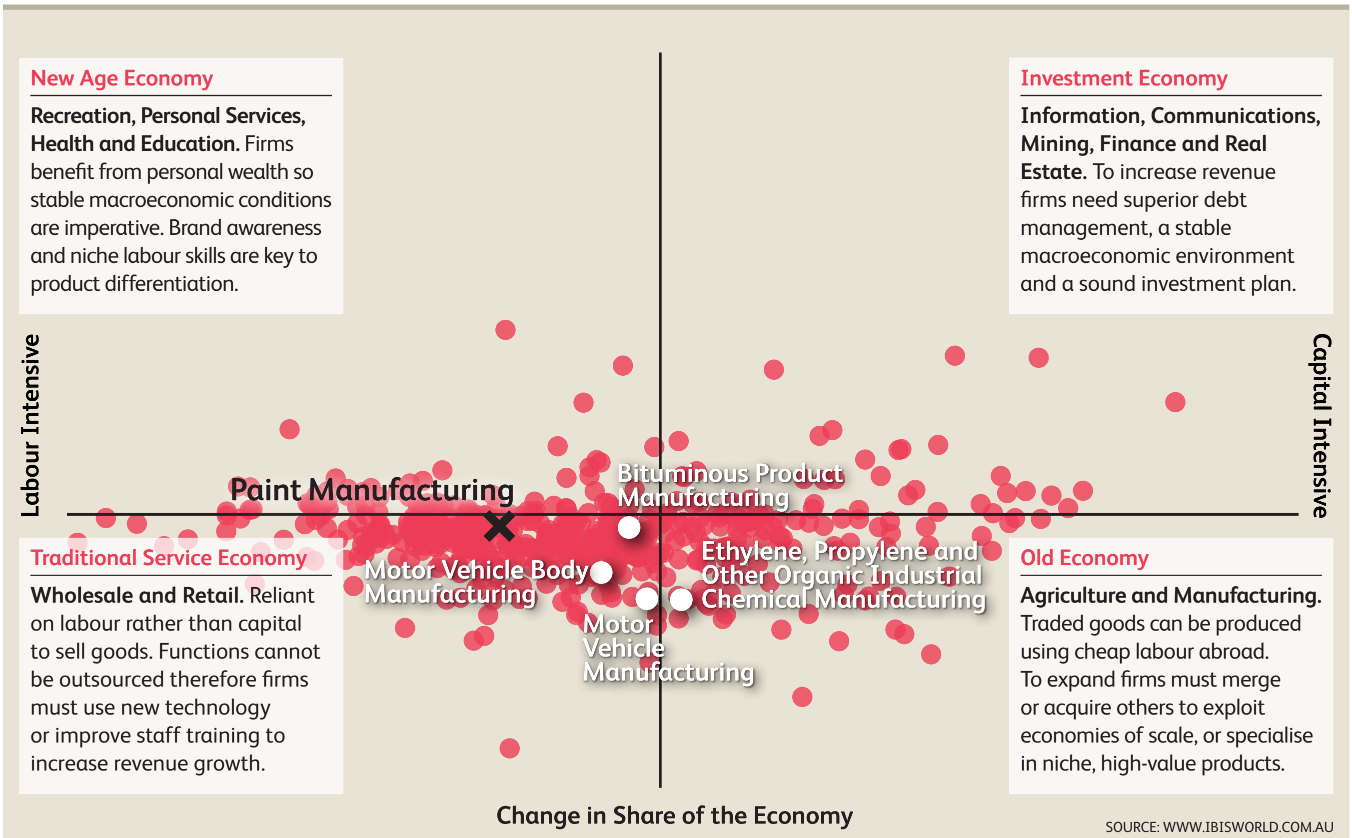
Capital intensity
Capital units per labour unit



Dotted line shows a high level of capital intensity

SOURCE: WWW.IBISWORLD.COM.AU

Tools of the Trade: Growth Strategies for Success



SOURCE: WWW.IBISWORLD.COM.AU

Operating Conditions

Technology & Systems

Level
The level of Technology Change is **Low**

The production of paint involves a batch process blending of a wide range of raw materials such as organic and inorganic pigments, resins (otherwise known as binders or polymers), solvents and additives.

The manufacture of pigmented paints involves the dispersion of pigments into part of the binder and solvent components. This is executed using high-speed dispersers or other grinding mill devices such as sandmills, beadmills and ballmills. Production is conducted on a discrete batch basis in volumes anywhere between 200 and 200,000 litres. Plants tend to be multi-purpose rather than specialised, with small manufacturers producing a range of paints.

This reliance on batch production, as opposed to 24-hour continuous shifts, reflects the limited size of the Australian market and the range of products offered (over 3,500).

Recent years have seen a growing focus on the physical form of the pigment used (dry pigment as opposed to a pre-dispersed product) in line with increasing pressures to reduce costs and improve manufacturing efficiencies. The level of capital investment required, batch sizes, and production output are also key factors in determining the type of pigment used.

In the past, technology tended to be imported from overseas. Today, this technology is being increasingly modified to meet local performance requirements. In some instances, Australian manufacturers are now exporting locally developed technology to countries in the Asia-Pacific region.

Changes in technology in the paint manufacturing industry have traditionally been very slow, though the pace has picked up in recent years aided in part by environmental pressures. The most significant trend over the past 30 years has been the decline of solvent based paint production in favour of water based paints in the face of growing environmental concerns over solvent

Paint technology is increasingly being modified to meet local needs

emissions. Consumer preferences have also driven this development. The solvent based market segment has also lost ground in line with developments in radiation curing systems, powder coatings and high solids.

Technologies used today can be categorised into six separate groups: improved low solids (<70%), solvent-based systems; high solids systems (<70%), solvent-based systems; water-borne coatings; reactive (two-part catalysed) systems; powder coatings and; radiation cured systems (ultra-violet and electronic beam). Of particular importance, are the powder coatings segment and radiation cured systems.

One of the latest technologies that is slowly being embraced by various paint and coatings manufacturers is nanotechnology with basic as well as treated nanomaterials being incorporated into products. The industry uses the technology to develop photocatalytic and self-cleaning paints. It is believed that increasingly stringent VOC regulations will help accelerate their commercial acceptance as will the demand for novel applications and effects. Thus, in the next five years there may be the increased production of smart paints.

Increasingly stringent environmental and occupational health and safety regulations have led to the production process becoming more costly. For example, as mentioned above, concerns over the emission of VOCs have stimulated various improvements in water-borne technology as well as the ever-increasing use of water as the liquid medium in the manufacture of paints and coatings. This in turn has seen the manufacturing process become more efficient and economical, as well as environmentally sound. Environmental

Operating Conditions

Technology & Systems continued

issues, in particular concerns over chlorofluorocarbon propellants, have also led to changes in the production of aerosol paints in recent years.

Thus in the immediate future, the focus will be on the development of green and sustainable technologies for the production of sustainable coatings as manufacturers seek to simplify and compress the coatings process to cut the associated carbon footprint (as well as the total process cost). This may also see the incorporation of renewable resources within coatings formulations, which will again help to cut the carbon footprint

The trend towards e-commerce is expected to have a number of implications for industry manufacturers, particularly those with vertically integrated operations.

Revenue Volatility

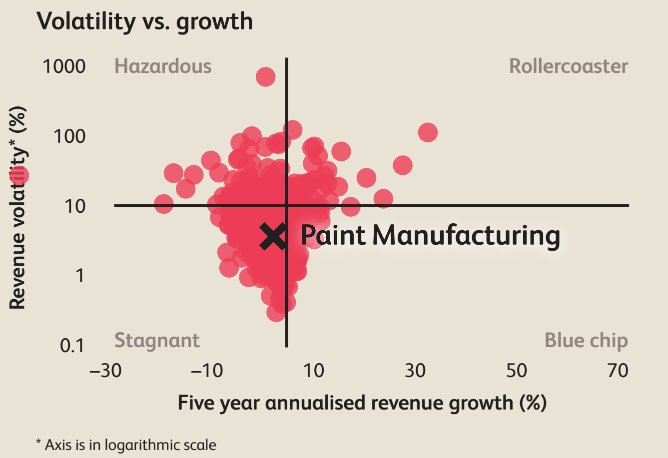
Level
The level of Volatility is **Medium**

The industry is influenced by various cyclical and counter cyclical forces that can balance each other out, though not always. For example, growth in some product segments such as architectural and decorative paints during a housing boom can help offset a fall in demand for say OEM products.

The industry is contending with a cyclical downturn in the housing industry, as well as long-term structural changes within the automotive industry and Australia's manufacturing industry in general. With these trends currently coinciding, this has raised the level of volatility within the industry.

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment.

When a firm makes poor investment decisions it may face underutilised capacity if demand suddenly falls, or capacity constraints if it rises quickly.



SOURCE: WWW.IBISWORLD.COM.AU

Regulation & Policy

Level & Trend
The level of Regulation is **Medium** and the trend is **Increasing**

As with other components of the general Australian chemical industry, companies operating in Paint Manufacturing industry are required to meet a varying set of environmental standards, State Transport of Goods acts and various occupational health and safety regulations. At present, the regulatory framework is characterised by a historical lack of regulatory consistency across federal and state jurisdictions; for example, there are thought to be over 150 different pieces of Commonwealth, State and Territory legislation for the management of chemicals to protect the environment or in regards to public and workplace health and safety.

Concerning paint storage and handling, industry regulations vary depending on the solvent used in the manufacturing process. For example, while water based the Australian Code does not define paints as dangerous goods for the Transport of Dangerous

Operating Conditions

Regulation & Policy continued

Goods by Road and Rail, solvent thinned paint are deemed to be dangerous. The Australian Dangerous Goods Code Edition 7 was published in October 2007 by the National Transport Commission (NTC) and was adopted by most State/Territory Governments during 2008-09. Compliance became mandatory from 1 January 2010.

In relation to workplace safety, Worksafe Australia administers the National Model Regulations and Code of Practice for the chemicals industry. The regulation underpins occupational health and safety in relation to plant and equipment, hazardous substances, transport and storage and labelling of chemicals within the industry.

Companies in the chemicals industries are also required to comply with the National Industrial Chemicals Notification and Assessment Scheme (NICNAS) whereby new chemicals that a company wishes to introduce into Australia must be assessed and certain existing chemicals have a reporting requirement placed upon them. The reform of this scheme is thought to be one of the most pressing issues for many participants in Australia's general chemical industry.

There are a number of other self-regulated associations and schemes established to address health, safety and environmental issues, as well as technical, packaging, storage and distribution concerns. These include the Australian Paint Manufacturers' Federation, which acts primarily as an interface between paint manufacturers, the Governments and the public in regards to issues affecting the manufacture, supply and use of surface coatings. Representing 38 paint manufacturing companies (and 95% of Australia's coatings manufacturing capacity), the APMF runs the Coatings Care Program, an integrated management system comprised of various codes of practice encompassing manufacturing, transport and distribution, product stewardship and community responsibility. The Coatings Care program is an initiative of the international coatings industry and operates in the United States, Canada, Europe, Japan and Mexico. A similar program is the Responsible Care program, which is an initiative of the international chemicals industry to improve the health, safety and environmental performance of its operations, and to increase community involvement and awareness of the industry.

Another institute is The Surface Coatings Association Australia Inc (SCAA). Formed in 1990 from the Oil and Colour Chemists' Association Australia (OCCAA), SCAA is an internationally recognised not-for profit association geared towards increasing the understanding and development of surface coatings in Australia. However, the SCAA is not an industry body but is comprised of 700 members from the paint, printing ink and adhesives industries.

Also of relevance is the Australian Paint Approval Scheme (APAS), which acts to ensure that products are of high quality, which suits customers' needs, recognises occupational health and environmental concerns of the community and promote a quality assurance system, which covers product manufacture. Administered by the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the APAS list includes more than 2,000 approved products certified against 100 specifications. Over the years, the APAS has withdrawn approval for leads paints as well as paints containing chromates and other toxic ingredients. In early 2008 the Federal Government gazetted a lead elimination timetable as efforts continue to remove all lead compounds from paints. Efforts have also focused on the control of cuprous oxide in anti-fouling paints. Revisions to the APAS scheme came into effect in early 2009.

Indeed, recent years have seen growing environmental concerns about the VOCs used by the Paint Manufacturing

Operating Conditions

Regulation & Policy continued

industry. The APMF, along with the Australian Paints Approvals Scheme (APAS) has committed to a VOC reduction program. To date, reduced VOC levels have been agreed for a number of architectural and industrial paints. In late 2007, the APMF and the Green Building Council of Australia signed off the IEQ 13 Volatile Organic Compounds, which is to be used as a specification for paints seeking Green Building Council green star certification.

The National Pollutant Inventory (NPI), which focuses on maximising the benefits of scarce resources and assisting authorities in setting environmental priorities is also of interest. To date, emission factors have been calculated for a number of commonly used substances in the paint manufacturing industry including cumene, ethylene glycol, MEK, MIBK, toluene and xylene.

The existence of the Australian Packaging Covenant (successor to the National Packaging Covenant, which was first introduced in mid-1999) is also of interested. Industry participants that had signed the Packaging Covenant or lodged action plans included Barloworld Coatings, Dulux Australia, Duralex Paints, Henry Haymes, Murobond Coatings, BASF, DuPont, Masterbrand Paints, Tasmanian Paints and Wattyl Australia. A regulatory component of the Covenant is the National Environment Protection Measure (NEPM) for Used Packaging Materials, which was established by the National Environment Protection Council (NEPC). It is then implemented by mirrored legislation in each State and Territory. Those brand owners that do not participate in the Covenant must comply with state NEPM legislation.

In the immediate future, two regulatory issues include the impending regulation of VOCs in paints and other surface coatings, as well as any formal documentation of the industry's responsibility for post-consumer paint.

As environmental concerns continue to mount, it is anticipated that the regulatory environment governing the operation of the Australian Paint Manufacturing Industry will become increasingly stringent.

At the same time, it is hoped that the industry will eventually benefit from current governmental attempts to provide a more simplified chemicals regulatory framework. The final findings of the Productivity Commission's study of Australia's regulatory framework for the chemical and plastics industry released in August 2008 found that chemicals and plastics regulation within Australia was complex and fragmented and that efficiency could be enhanced by national uniformity in some regulatory areas. It is now hoped that the Government will work to provide a more streamlined system of chemicals regulation, which will reduce and simplify the regulatory burden on business; the current regulation reform agenda relating to the chemicals and plastics industry is designed to harmonise inconsistent and overlapping regulations between the various jurisdictions. In late 2009 the Council of Australia Governments (COAG) had a signed a Memorandum of Understanding on chemicals and plastics, which established a new national governance framework to help achieve a more streamlined and harmonised national regulatory system, which in turn is designed to ultimately reduce the regulatory burden on business. By 2012, 27 areas of reform are to be tackled. This follows on from COAG recognition in 2006 of chemicals and plastics policy as a regulatory hotspot.

Operating Conditions

Industry Assistance

Level & Trend
The level of Industry Assistance is **Low** and the trend is **Decreasing**

Under the old taxation regime, which centred on a wholesale sales tax, raw materials used by the paint manufacturing industry were exempt from the tax. This is no longer the case.

Imports are currently subject to a maximum general tariff of 5.0% although according to the Australian Paint Manufacturers' Federation, these tariff rates do little to protect the local industry since import parity pricing based on international prices tends to be prevalent.

At the same time, the industry does benefit from natural protection by virtue of the low cost nature of the product. Consequently, the high cost of freight relative to the cost of the product has kept international trade in paints to a minimum though the move by downstream big box retailer Bunnings to stock Nippon Paint imported from Singapore is changing this. International trade has historically been restricted to the trade of specialty paints.

The industry does not receive any other significant forms of industry protection or assistance.

The government's current objective with regards to the overall Australian chemical industry is stated as such; to facilitate the development of a stronger, more internationally competitive and sustainable Australian chemicals and plastics industry.

Key tariffs

Goods	Low rate	High rate
General tariff	0	5

SOURCE: CUSTOMS

Key Statistics

Industry Data

	Revenue ($m)	Industry Value Added ($m)	Establishments	Enterprises	Employment	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)
2001-02	3,125	995	125	101	6,447	157.1	256.8	520	3,224.7
2002-03	3,115	925	120	100	6,425	159.6	268.0	515	3,223.4
2003-04	3,275	920	116	98	6,627	161.6	231.9	600	3,345.3
2004-05	3,115	990	112	96	6,206	139.1	245.2	590	3,221.1
2005-06	3,195	1,050	105	92	5,980	148.8	253.2	605	3,299.4
2006-07	3,345	1,055	100	90	5,900	145.0	266.9	590	3,466.9
2007-08	3,405	1,145	95	87	5,750	145.3	297.5	555	3,557.2
2008-09	3,345	1,110	92	85	5,650	125.0	312.6	580	3,532.6
2009-10	3,300	1,085	89	83	5,575	186.9	463.8	565	3,576.9
2010-11	**3,400**	**1,095**	**88**	**82**	**5,585**	**195.0**	**380.0**	**570**	**3,585.0**
2011-12	3,455	1,115	87	80	5,570	190.0	390.0	570	3,655.0
2012-13	3,525	1,145	85	78	5,535	200.0	395.0	565	3,720.0
2013-14	3,510	1,135	83	77	5,525	210.0	400.0	562	3,700.0
2014-15	3,580	1,175	81	76	5,520	215.0	410.0	560	3,775.0
2015-16	3,675	1,210	80	75	5,510	220.0	420.0	557	3,875.0
Sector Rank	**34/147**	**29/147**	**113/147**	**104/147**	**59/147**	**60/141**	**86/141**	**29/147**	**43/139**
Economy Rank	**221/499**	**212/499**	**432/499**	**405/498**	**323/499**	**103/215**	**107/195**	**219/499**	**70/192**

Annual Change

	Revenue (%)	Industry Value Added (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)
2002-03	-0.3	-7.0	-4.0	-1.0	-0.3	1.6	4.4	-1.0	0.0
2003-04	5.1	-0.5	-3.3	-2.0	3.1	1.3	-13.5	16.5	3.8
2004-05	-4.9	7.6	-3.4	-2.0	-6.4	-13.9	5.7	-1.7	-3.7
2005-06	2.6	6.1	-6.3	-4.2	-3.6	7.0	3.3	2.5	2.4
2006-07	4.7	0.5	-4.8	-2.2	-1.3	-2.6	5.4	-2.5	5.1
2007-08	1.8	8.5	-5.0	-3.3	-2.5	0.2	11.5	-5.9	2.6
2008-09	-1.8	-3.1	-3.2	-2.3	-1.7	-14.0	5.1	4.5	-0.7
2009-10	-1.3	-2.3	-3.3	-2.4	-1.3	49.5	48.4	-2.6	1.3
2010-11	**3.0**	**0.9**	**-1.1**	**-1.2**	**0.2**	**4.3**	**-18.1**	**0.9**	**0.2**
2011-12	1.6	1.8	-1.1	-2.4	-0.3	-2.6	2.6	0.0	2.0
2012-13	2.0	2.7	-2.3	-2.5	-0.6	5.3	1.3	-0.9	1.8
2013-14	-0.4	-0.9	-2.4	-1.3	-0.2	5.0	1.3	-0.5	-0.5
2014-15	2.0	3.5	-2.4	-1.3	-0.1	2.4	2.5	-0.4	2.0
2015-16	2.7	3.0	-1.2	-1.3	-0.2	2.3	2.4	-0.5	2.6
Sector Rank	**41/147**	**59/147**	**107/147**	**111/147**	**71/147**	**27/141**	**140/141**	**35/147**	**93/139**
Economy Rank	**206/499**	**302/499**	**411/499**	**411/498**	**328/499**	**47/215**	**192/195**	**244/499**	**130/191**

Key Ratios

	IVA/Revenue (%)	Imports/Demand (%)	Exports/Revenue (%)	Revenue per Employee ($'000)	Wages/Revenue (%)	Employees per Est.	Average Wage ($)	Share of the Economy (%)
2001-02	31.84	7.96	5.03	484.72	16.64	51.58	80,657.67	0.10
2002-03	29.70	8.31	5.12	484.82	16.53	53.54	80,155.64	0.09
2003-04	28.09	6.93	4.93	494.19	18.32	57.13	90,538.71	0.08
2004-05	31.78	7.61	4.47	501.93	18.94	55.41	95,069.29	0.09
2005-06	32.86	7.67	4.66	534.28	18.94	56.95	101,170.57	0.09
2006-07	31.54	7.70	4.33	566.95	17.64	59.00	100,000.00	0.09
2007-08	33.63	8.36	4.27	592.17	16.30	60.53	96,521.74	0.09
2008-09	33.18	8.85	3.74	592.04	17.34	61.41	102,654.87	0.09
2009-10	32.88	12.97	5.66	591.93	17.12	62.64	101,345.29	0.08
2010-11	**32.21**	**10.60**	**5.74**	**608.77**	**16.76**	**63.47**	**102,059.09**	**0.08**
2011-12	32.27	10.67	5.50	620.29	16.50	64.02	102,333.93	0.08
2012-13	32.48	10.62	5.67	636.86	16.03	65.12	102,077.69	0.08
2013-14	32.34	10.81	5.98	635.29	16.01	66.57	101,719.46	0.08
2014-15	32.82	10.86	6.01	648.55	15.64	68.15	101,449.28	0.08
2015-16	32.93	10.84	5.99	666.97	15.16	68.88	101,088.93	0.08
Sector Rank	**49/147**	**95/139**	**89/141**	**36/147**	**65/147**	**16/147**	**6/147**	**29/147**
Economy Rank	**246/499**	**110/192**	**127/215**	**129/499**	**242/499**	**52/499**	**42/499**	**212/499**

Figures are inflation-adjusted 2011 dollars. Rank refers to 2011 data.

SOURCE: WWW.IBISWORLD.COM.AU

Jargon & Glossary

Industry Jargon

ADDITIVES Materials that are added to the paint, usually in small quantities, to help it dry quicker, flow out evenly and stop skinning in the can. Silicone is a common additive.

BINDER The portion of the dry paint film that binds the pigment particles together. The binder gives the paint gloss, adhesion, flexibility, durability and speed of drying.

PIGMENT Provides the colour of paint. The most common white pigment used is titanium dioxide.

SOLVENT An input into paint that is mixed with the pigment and binder to produce the correct consistency.

VEHICLE The name given to the liquid portion of the paint because it carries the pigment.

VOC Stands for volatile organic compounds, which are used as solvents in paints coatings. These chemicals can affect the environment.

IBISWorld Glossary

BARRIERS TO ENTRY Barriers to entry can be High, Medium or Low. High means new companies struggle to enter an industry, while Low means it is easy for a firm to enter an industry.

CAPITAL/LABOUR INTENSITY An indicator of how much capital is used in production as opposed to labour. Level is stated as High, Medium or Low. High is a ratio of less than $3 of wage costs for every $1 of depreciation; Medium is $3-$8 of wage costs to $1 of depreciation; Low is greater than $8 of wage costs for every $1 of depreciation.

DOMESTIC DEMAND The use of goods and services within Australia; the sum of imports and domestic production minus exports.

EARNINGS BEFORE INTEREST AND TAX (EBIT) IBISWorld uses EBIT as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding tax and interest.

EMPLOYMENT The number of working proprietors, partners, permanent, part-time, temporary and casual employees, and managerial and executive employees.

ENTERPRISE A division that is separately managed and keeps management accounts. The most relevant measure of the number of firms in an industry.

ESTABLISHMENT The smallest type of accounting unit within an Enterprise; usually consists of one or more locations in a state or territory of the country in which it operates.

EXPORTS The total sales and transfers of goods produced by an industry that are exported.

IMPORTS The value of goods and services imported with the amount payable to non-residents.

INDUSTRY CONCENTRATION IBISWorld bases concentration on the top four firms. Concentration is identified as High, Medium or Low. High means the top four players account for over 70% of revenue; Medium is 40–70% of revenue; Low is less than 40%.

INDUSTRY REVENUE The total sales revenue of the industry, including sales (exclusive of excise and sales tax) of goods and services; plus transfers to other firms of the same business; plus subsidies on production; plus all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); plus capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED The market value of goods and services produced by an industry minus the cost of goods and services used in the production process, which leaves the gross product of the industry (also called its Value Added).

INTERNATIONAL TRADE The level is determined by: Exports/Revenue: Low is 0-5%; Medium is 5-20%; High is over 20%. Imports/Domestic Demand: Low is 0-5%; Medium is 5-35%; and High is over 35%.

LIFE CYCLE All industries go through periods of Growth, Maturity and Decline. An average life cycle lasts 70 years. Maturity is the longest stage at 40 years with Growth and Decline at 15 years each.

NON-EMPLOYING ESTABLISHMENT Businesses with no paid employment and payroll are known as non-employing establishments. These are mostly set-up by self employed individuals.

VOLATILITY The level of volatility is determined by the percentage change in revenue over the past five years. Volatility levels: Very High is greater than ±20%; High Volatility is between ±10% and ±20%; Moderate Volatility is between ±3% and ±10%; and Low Volatility is less than ±3%.

WAGES The gross total wages and salaries of all employees of the establishment.