Australian Shareholders' Association
Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

A challenging year

Company/ASX Code	Ansell Limited / ANN
AGM date	14 November 2019
Time and location	1:30pm Park Hyatt Melbourne, 1 Parliament Square, Melbourne
Registry	Computershare
Webcast	A live webcast will be available at www.ansell.com
Poll or show of hands	Poll on all items
Monitor	John Whittington assisted by Barbara Crook and Belinda White
Pre AGM Meeting?	Yes with Chair Glenn Barnes and Deputy Chair (and incoming Chair) John Bevan

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Financial performance

In the 2019 financial year (FY19), Ansell's total revenue declined by 3% (for the second year in a row) to US$1,499m due to divestment of the Sexual Wellness business (ie condoms) with revenue from continuing operations flat. Revenue was fairly evenly split between the remaining two business units – Healthcare US$795m (up 3%) and Industrial US$704m (down 2%).

Reported net profit after tax (NPAT) for the group was US$113m (down 77% on last year's figure which included gains from the discontinued Sexual Wellness business and benefits from the US tax rate cuts). NPAT from continuing operations was down 20%, split approximately 2/3 from the Healthcare business and 1/3 from the industrial business. Earnings per share (EPS) was down 14%.

Cash flow from operations was up 23% (to US$189m) and free cash flow was down 39% (to US$65m) after allowing for last year's divestments.

Dividends increased 3% to US 46.75 cents per share and the total shareholder return for the year was 0.5% (-1.3% from the decrease in share price and 1.7% from dividends).

Key events

There were no key events during the year.

Key Board or senior management changes

Christine Yan, a highly experienced US and China bases manufacturing executive was appointed to the board in April 2019. Following the 2019 AGM the current Chair, Glenn Barnes will be retiring from the board and will be replaced by the current Deputy Chair, John Bevan.

Steve Genzer, President of the Industrial business, and Joe Kubicek, President of the Healthcare business, left Ansell in April 2019 to be replaced by Neil Salmon (previously CFO) and Darryl Nazareth (previously a SVP Operations) respectively.

ASA focus issue

Remuneration disclosure remains excellent, probably the best this monitor has seen. Ansell include a table of Actual remuneration in their annual report and long-term incentive awards are based on face value. Director and CEO equity holdings are generally excellent (with probably the best shareholding policy we have seen) and shareholder participation is satisfactory.

We are concerned however about board independence as we believe that, post the forthcoming AGM, four of the eight directors do not qualify as independent.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT (US$m)	112	484	148	159	188
UPAT (US$m)	112	140	119	159	188
Share price (AU$)	26.85	27.19	23.73	18.17	24.09
Dividend (cents)	46.75	45.5	44	43.5	43
TSR (%)	0.5	12.5	38.5	-24.7	1.3
EPS (US cents)	83	337	100	105	123
CEO total remuneration, actual (US$m)	5.31	4.43	3.12	2.59	4.92

For FY19, the CEO's total actual remuneration was **60 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2a	**Election of Christine Yan as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Yan, who grew up and was initially educated in China and held many senior positions with Stanley Black and Decker in the US, was appointed to the board in April 2019. She already has a shareholding equivalent to over 20% of her (part year FY19) total remuneration and is independent.

Ms Yan is a non-executive director of three US listed companies (ON Semiconductor, Modline Manufacturing, and Cabot). We do not consider her workload excessive.

We believe that Ms Yan is well qualified, is likely to contribute to the board, adds considerable additional cultural, geographic, and gender diversity, and we support her election.

Item 2b	Re-election of Peter Day as a Director
ASA Vote	Against

Summary of ASA Position

Mr Day, a former CFO of Bonlac and Amcor with previous executive experience at ASIC, Rio Tinto, CRA, and Comalco, was appointed to the board in August 2007. He has a shareholding in excess of 300% of his total remuneration and, since he has now served over 12 years on the board, the ASA no longer consider him independent.

Mr Day is currently Chair of one ASX listed company (Alumina) and one non listed entity (Australian Unity Investment Real Estate Limited). We do not consider his workload excessive.

We believe that Mr Day is well qualified and is likely to contribute to the board however, as the board will not have a majority of independent directors following the AGM if he is elected, we do not support his re-election.

Item 2c	Re-election of Leslie Desjardins as a Director
ASA Vote	For

Summary of ASA Position

Ms Desjardins, another former CFO of Amcor who also held executive roles at General Motors in various countries, was appointed to the board in November 2015. She has a shareholding in excess of 130% of her total remuneration and is independent.

Ms Desjardins is currently a director of a Cancer Foundation. We do not consider her workload excessive.

We believe that Ms Desjardins is well qualified, is likely to contribute to the board and we support her election.

Item 3	Approve On-market Buy-back of Shares
ASA Vote	For

Summary of ASA Position

Ansell is currently generating substantial amounts of cash annually and also has a sizeable balance remaining from the sale of the Sexual Wellness business in 2017. Whilst investing in the business through capital expenditure or accretive acquisitions remains the stated priority going forward (although capital expenditure has been declining in recent years), it is expected that this will be achieved whilst still having surplus cash available. The directors believe that the best use of this surplus cash is to return it to shareholders through an on-market buy-back (the lack of franking credits make off-market buy-backs and special dividends less attractive).

This was first announced in May 2017 and a buy-back of up to 20% of company shares was approved by shareholders at the 2017 AGM and again at the 2018 AGM. The board is now seeking a 'refresh' of this shareholder approval such that the company may buy-back up to 20% of its shares.

We support this initiative although we will seek some reassurance that the shares will not be bought back if they are trading above Ansell's intrinsic value.

Item 4	**Grant of Performance Share Rights to Chief Executive Magnus Nicolin**
ASA Vote	**For**

Summary of ASA Position

This is for the issue of 207,893 performance rights worth AU$5.698m (based on the share price as at 30 September). This is equivalent to 360% of (unchanged) base salary and has been calculated based on face value (average price of shares on the ASX over the 90-day period to 7 August).

The award structure is almost identical to last year.

One third of these rights will vest based on FY22 EPS measured against the FY19 adjusted EPS of 111.5 US cents. If the company EPS over this period has grown by under 12.5% then no rights will vest. If the EPS has grown between 12.5% and 33.1% then a linear scale will apply from 0% vesting at 12.5% to 100% vesting at 33.1%. If the EPS has grown more than 33.1% then all rights will vest. An additional gateway condition for any of these rights to vest is that Ansell's ROCE as at 30 June 2022 must be at least 13.5% (down from 14.0% last year).

Another third of these rights will vest based on FY22 organic continuing sales measured against the FY19 organic continuing sales of US$1,499.9m. If sales over this period have grown by under 6.1% then no rights will vest. If sales have grown between 6.1% and 15.8% then a linear scale will apply from 0% vesting at 6.1% to 100% vesting at 15.8%. If sales have grown more than 15.8% then all rights will vest.

The final third of these rights will vest based on return on capital employed (ROCE) over the period FY20 to FY22. If the ROCE over this period is under 14.0% then no rights will vest. If the ROCE is between 14.0% and 15.5% then a linear scale will apply from 0% vesting at 14.0% to 100% vesting at 15.5%. If the ROCE is greater than 15.5% then all rights will vest.

Mr Nicolin is expected to retire on 30 June 2021 and all awards will remain "on foot" on his retirement and will vest based on company performance up to 30 June 2022. We applaud this approach as it encourages retiring executives to ensure strategies in place that will continue to drive shareholder returns after they have left. If, however, Mr Nicolin is terminated due to cause before the rights vest, the rights will immediately lapse.

The directors may adjust the figures used to evaluate performance and whilst these adjustments have always been transparent and, in past years, reasonable, we are seriously concerned about the adjustments made this year – for more detail, see the next item. There are no voting rights or entitlements to dividends on unvested rights.

Whilst the maximum possible award of the long-term incentive (LTI) compared with base salary (360%) is quite high, it is based on a lower fixed salary than comparable companies and past history suggests that the board set more difficult targets than most other companies (the unweighted average LTI grant over the past six years was 37% of maximum). We believe that the outcome is aligned with shareholders and not excessive.

Item 5	Remuneration Report
ASA Vote	Against

Summary of ASA Position

	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.593	33%	1.593	20%
STI - Cash	1.199	25%	1.199	15%
STI - Equity	0.000	0%	1.199	15%
LTI	1.919	41%	3.838	49%
Total	4.711	100%	7.829	100%

The presentation of the remuneration report remains excellent – it is probably the most understandable one I have ever read with excellent layout, descriptions, and transparency. It was a pleasure (and interesting) to read and is a shining example to other companies of how it can be done.

The remuneration structure is essentially unchanged from last year with three components – fixed remuneration, short term incentives (STI) and LTI. The STI, which can range from 0% of fixed remuneration to 225% of fixed remuneration for the CEO (130-150% max for other executives), provides a bonus based 90% on financial measures such as sales, earnings before interest and tax, inventory turns, cash flow, and profit, with 10% based on individual objectives. STI awards up to target are paid as cash and all awards over target are paid in restricted shares. As all STI achievements this year were around or below target (51% of maximum possible for CEO and 38-39% for other executives), this year's awards were mostly or all in cash. Whilst the maximum possible award of STI compared with fixed remuneration is quite high, it is based on a lower fixed remuneration than comparable companies and past history suggest the board set more difficult targets than most other companies (the unweighted average STI grant over the past six years was 45% of maximum). We believe that the outcome is aligned with shareholders and not excessive.

LTIs, which can range from 0% of fixed remuneration to 360% of fixed remuneration for the CEO (200-300% max for other executives), are discussed in the item above so will not be repeated here.

The concern we have this year with the remuneration report this year is that the metrics used for performance evaluation exclude a substantial amount of costs labelled "transformation" which supposedly will be added back in later years as a further adjustment. Whilst in the past we have accepted some adjustments as they were small, reasonable, and well disclosed we think this approach, whilst well intentioned, just takes adjustments (something that ASA is reluctant to support in any form) too far.

We are also concerned that the new CFO received a substantial sign on bonus (albeit most as share rights) but the disclosures about it are poor and it does not include any performance hurdles. The ASA is opposed to sign on benefits, particularly if they do not require achievement of performance hurdles some years into the future.

For these reasons, despite the excellent presentation and disclosure, we cannot support this year's Remuneration Report.

The individual (or their associates) involved in the preparation of this voting intention have no shareholding in this company.