



## Profit drop after the COVID-19 demand

<b>Company/ASX Code</b>	Ansell / ANN
<b>AGM date</b>	Thursday 10 November, 2022
<b>Time and location</b>	9.00 am, Park Hyatt, 1 Parliament Sq., Melbourne
<b>Registry</b>	Computershare
<b>Type of meeting</b>	Hybrid (via Lumi)
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Peter Aird assisted by Michael Middleton
<b>Pre AGM Meeting?</b>	Yes, with Chair John Bevan, Nigel Garrard (NED, Chair HR Committee), Anita Chow (Senior Director, IR & Treasury), Catherine Stribley, VP Corp Gov & Social Responsibility and Company Secretary

Monitor Shareholding: The individuals (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

### Summary of issues for meeting

The retention awards for Executives who were candidates for the CEO position. The LTI does not include Total Shareholder Return and Director workloads are minor issues.

### Proposed Voting Summary

No.	Resolution description	
2a	Re-election of Leslie Desjardins as a Director	For
2b	Re-election of Christine Yan as a Director	For
3	Grant of Performance Share Rights to CEO/Managing Director Neil Salmon	Against
4	Adoption of Remuneration Report	Against

### Summary of ASA Position

#### Consideration of accounts and reports - No vote required

#### Governance and culture

Ansell demonstrates good governance and transparency with comprehensive and readable Annual and ESG reports. The Directors are also well located in Ansell's business locations (US, Europe, Asia). Directors and KMP's are required to hold significant amounts of shares in the company, with shareholdings and progress against the requirement reported.

## **Financial performance**

Ansell's rapid rise in sales and profit in FY2021 could not be sustained in FY2022 as the impact of COVID-19 diminished and the business was left with higher priced stock that had been purchased to ensure supply over 2021 and 2022. The company issued an update to its outlook on 31 January 2022 indicating that its Earnings per Share (EPS) in FY2022 would be in the range of 125c-145c down from a range of 175c-195c provided at the FY2021 AGM. Consequently, the share price dropped from the low A\$30's to the mid A\$20's, where it has mostly stayed. EPS achieved was 125.2 US cents.

## **Key events**

Ansell announced in their Annual Report that they are exiting their Russian commercial and manufacturing business and have included a one-off \$17m expense in the FY2022 accounts, which includes the write off of this asset. The business included a recently completed manufacturing facility, which the company hope to sell. Both commercial and manufacturing activities have now been closed. They indicated that there would be little impact on their global products or future business profits.

## **Key Board or senior management changes**

Neil Salmon was appointed as CEO as of 1 September 2021 following the retirement of Magnus Nicolin. Directors Mr Day and Mrs Peterson retired from the Board at the FY2021 AGM and have not been replaced.

## **ASA focus issues**

The Board's Skills Matrix continues to lack details regarding each Director's skills. ASA have previously provided Ansell with Skills Matrices from other companies that show our preferences. Ansell have indicated that Board Skills will undergo an external review in FY2023, and they will provide the consultant with our views and examples.

Ansell's Sustainability Report for 2022 is comprehensive and clearly sets out the company's vision, plans and actions.

## **Summary**

(As at FYE)	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
NPAT (US\$m)	159	247	159	112	484
UPAT (US\$m)	176 [1]	247	159	151	147
Share price (AUS\$)	22.24	43.51	36.70	26.85	27.19
Dividend (US cents)	55.45	76.8	50	46.75	45.5
Simple TSR (%)	-47.0	21.0	39.2	1.0	17.0
EPS (US cents)	125	192	122	111	102
CEO total remuneration, actual (US\$m)	1.636 [2]	11.131	5.084	4.562	5.206

[1] Excludes Russian Business Disruption

[2] Revised Base salary from previous CEO, no STI in 2022, LTI equity from FY20

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking) by the share price at the start of the year.

### **Election or re-election of directors**

The Board of 8 has an Independent Chair and 6 other Independent Directors, with over 30% female. There is a wide spread of service times on the Board, with the current Chair having the longest service of 10 years. It is noted that Ansell believes that whilst Directors need to have significant service with the business to thoroughly understand it, service is limited to 15 years. Two Directors are nominated for re-election:

We expressed concerns as to Mr Bevan's and Mr Garrard's workloads but were assured that both were able to devote the time required to Ansell, particularly in a business that requires extensive international travel.

Mrs Leslie Desjardins was appointed in 2015 and is Chair of the Audit and Compliance committee and member of the Human Resources and Governance committees. She is based in Texas USA and has one other Directorship. She has extensive executive experience in international finance roles.

Ms Christine Yan was appointed in 2019 and is a member of the Audit and Compliance and Human Resources committees. She is based in Florida USA and holds 3 other non-executive directorships. She has broad experience in manufacturing general management across different geographies.

ASA can support the re-election of both Directors.

### **Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO**

With the retirement of the previous CEO, a few issues raised in recent years have been removed and the CEO's remuneration is now more in line with ASA guidelines. In particular, it is noted that Ansell only awards 50% of STI's as cash and there is a 2-year hold on the shares awarded. LTI rights are based on face value and there is a clear minimum ROCE Gateway to the Incentive. However, it does not include ASA's favoured TSR, with the company arguing that with executives based in Europe, the USA and Asia, the relevance of an Australia share price is low. The Board is satisfied that the measures are best suited to its business.

In FY2022, neither of the STI's financial measures were met and Mr. Salmon declined to take any reward for individual objectives. However, LTI's measures of EPS and Organic Sales growth were met for the 3 years FY20-FY22 and 51% of total Rights vested. This despite a negative TSR over the same period. The Board reviewed measures and the external business environment and decided no adjustments were warranted.

On Mr Salmon's appointment as CEO, the Board decided to award retention benefits to 2 Executives (Z. Javeed and D. Nazareth) of one year's base salary, awarded as equity over 2 years, to ensure the stability and continuity of leadership of the Executive Team. Both Executives were candidates for the CEO role and the awards only require their continuing service.

These issues are sufficient to make a vote against the remuneration report appropriate.

The lack of any use of TSR (for example as a Gateway) and therefore allowing vesting of rights when shareholder returns are negative is sufficient reason to vote against the rights issue.

In addition, the maximum CEO package payable is substantially above benchmarks for a company of its size, in large part because the maximum LTI is a very high multiple (2.8 times) fixed remuneration.

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## Appendix 1

### Remuneration framework detail

Ansell's Remuneration report is well set out and easy to read and understand. Apart from the new CEO's base pay, its structure is like that of previous years.

Mr Salmon is based in Belgium and paid in Euros with a fixed salary of €715,000, or US\$805,340 in the annual report. This is a significant reduction from the previous CEO who was also awarded substantial retirement benefits in FY2021. Mr Salmon's base aligns well with Godfrey Remuneration data for similar sized businesses.

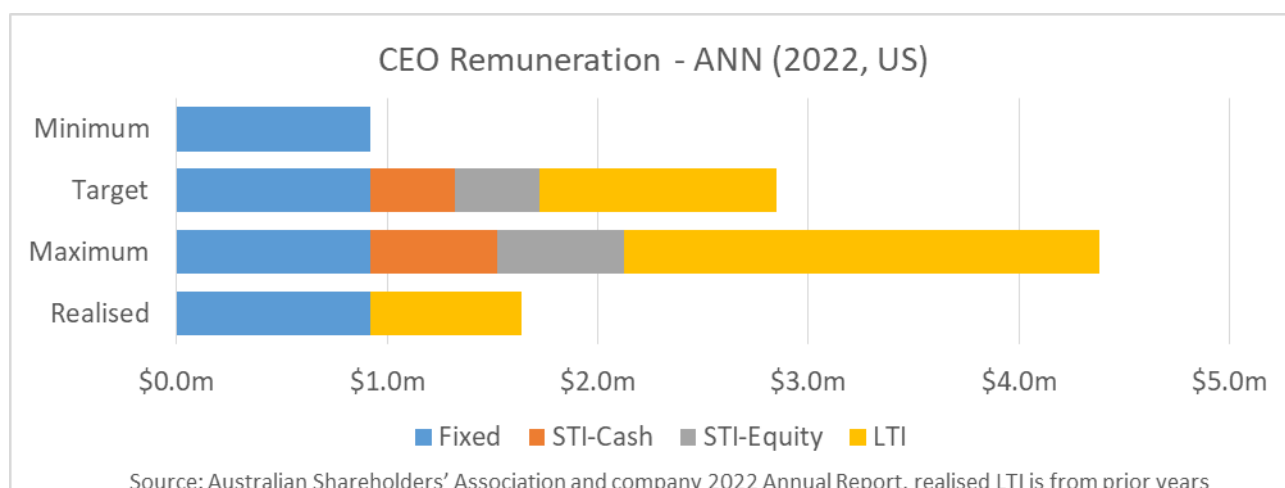
The STI has a target of 100% of fixed, with a threshold of 40% and a maximum of 150%. 50% is awarded in cash and 50% as equity, with a 2-year hold on the company shares awarded. Measures used are Sales growth (20%), EBIT growth (50%) and individual objectives (30%).

The LTI plan for FY22-24 has been modified by making the Return on Capital Employed (ROCE) a Gateway at 12.5%. Measures used are Earnings per Share (EPS) growth (85%) and Organic Sales growth (15%). Maximum LTI award is 280% of Fixed salary. The Award is made entirely of Performance Share rights, which are valued at the average share price over the 90 days prior to 16 August 2022, which is Aus\$25.31. Minimum requirements have been set for each measure, 12.5% for EPS growth and 6.1% for Organic Sales growth. Baselines for both measures are set in the Notice of Meeting.

It is noted that the Board retain its discretion to adjust the calculation of performance conditions as set out in the Remuneration report and Notice of Meeting. LTI rights will vest on a Change in Control at target levels unless the Board determines otherwise.

All Directors and KMP's are required to build a significant portfolio of shares in the company, with the CEO needing shares to the value of 3 times his base salary over 6 years and Directors 2 times their base fees over 10 years. Compliance and progress to these objectives is clearly reported in the Annual Report.

Non-Executive director's base fees were increased by US\$3500, effective July 2021, the first increase since FY2014. The Chair's base fee was not changed. Director fees are at the top end of fees for similar Australian companies.



The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. \*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.