Australian Shareholders' Association

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Good Result but Too Many Adjustments to Remuneration Targets

Company/ASX Code	Ansell Limited / ANN
AGM date	Thursday 5 November 2020
Time and location	9am AEDT, virtual meeting at https://web.lumiagm.com/318429446
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	John Whittington assisted by Christine Lai
Pre AGM Meeting?	Yes, with Chair John Bevan and Director, Investor Relations & Treasury Anita Chow

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

Item 1	**Financial Report**
ASA Vote	No vote required

Summary of ASA Position

Financial performance

In FY20, Ansell's total revenue increased 8% to US$1,614m after declines in the prior two years. 55% of revenue comes from the Healthcare business (up 12%) and 45% from the Industrial business (up 2%).

Reported net profit after tax (NPAT) for the group was US$159m (up 42%) with 61% coming from the Healthcare business and 39% coming from the Industrial business. Earnings per share was up 47%.

Cash flow from operations was 54% (to US$290.0m) and free cash flow was up 60% (to US$226m).

Dividends increased 7% to US 50 cents per share and total shareholder return for the year was 39.2% (36.7% from the increase in share price and 2.5% from dividends).

Key events

The Covid-19 pandemic and a major impact on the business in the second half of the financial year. Ansell's healthcare products were in high demand and it faced sudden slowdowns and production curfews in many of its manufacturing jurisdictions including China, Malaysia, Sri Lanka, Thailand, and Vietnam.

Key Board or senior management changes

There were no changes to the board or senior management during the year. Given the difficulty of holding face to face meetings and interviews, the company has deferred the planned retirements of board member Marissa Peterson by one year and the CEO Magnus Nicolin by six months.

ASA focus issue

The board has a good blend of skills and has excellent gender, geographic, and cultural diversity. Two directors have served for over 12 years but both are due to retire next year.

We have a number of concerns about remuneration which are covered below.

The company seems to have solid risk management protocols in place and seems to have responded well to the Covid "black swan" event.

Communication with shareholders is satisfactory and there has been no raising of equity since 2013 when it undertook an institutional placement plus share purchase plan (SPP).

Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT (US$m)	159	112	484	148	159
UPAT (US$m)	159	151	147	119	159
Share price (AU$)	36.70	26.85	27.19	23.73	18.17
Dividend (US cents)	50	46.75	45.5	44	43.5
TSR (%)	39.2	1.0	17.0	33.8	-22.3
EPS (US cents)	122	83	337	100	105
CEO total remuneration, actual (US$m)	6.98	5.31	4.43	3.12	2.59

For FY20, the Belgium based CEO's total actual remuneration was **113 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics and an average FY20 AUD/USD exchange rate of 0.6714).

Item 2a	**Election of Nigel Garrard as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Garrard, a former CEO of Orora and senior executive at Amcor and Coca-Cola Amatil, was appointed to the board in March 2020. He already holds a shareholding equivalent close to his expected total remuneration within six months in the role and is independent.

Mr Garrard is Chairman of one listed company (McMahon Services) and a non-executive director of one unlisted not-for-profit (Hudson Institute of Medical Research). We do not consider his workload excessive.

We believe that Mr Garrard is well qualified, is likely to contribute to the board and we support his election.

Item 2b	**Re-election of Christina Stercken as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Stercken, formerly a strategy, M&A, and management consultant and, prior to that, a senior executive at Siemens AG, was appointed to the board in October 2017. She has a shareholding equivalent to about 90% of her remuneration and is independent.

Ms Stercken is currently a director of one overseas company (Landis & Gyr Group AG) and Vice Chairman of one unlisted not-for-profit (Myanmar Foundation). We do not consider her workload excessive.

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

Item 2c	**Re-election of William Reilly as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Reilly, a lawyer and former General Counsel of Ansell from 2000 to 2017, was appointed to the board in October 2017. He has a shareholding in excess of 950% of his remuneration however, as he moved to the board immediately following his retirement, we do not consider him independent. We understand that his "corporate knowledge" is invaluable to the board and note that the board has a majority of independent directors.

Mr Reilly has no other directorships and we do not consider his workload excessive.

We believe that Mr Reilly is well qualified, is likely to contribute to the board and we support his election.

Item 3	**Constitution**
ASA Vote	**For**

Summary of ASA Position

This is for updates to Ansell's constitution, which was last amended in 2012, to allow for recent developments in law and company practice. Amongst other things it will allow the company in future (when short term Covid exemptions are over) to hold hybrid or virtual General Meetings, allow direct shareholder voting (rather than always requiring a proxy), and increase the board size to ten if required.

We see these as non-controversial and are strongly supportive of hybrid General meetings so will support this item.

Item 4	**Grant of Performance Share Rights to the MD and CEO Magnus Nicolin**
ASA Vote	**Against**

Summary of ASA Position

This is for the issue of 161,356 performance rights worth AU$5.970m (based on the share price as at 28 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 18 August).

The award structure is almost identical to last year although both growth targets are significantly higher and the ROCE target is very slightly lower.

One third of these rights will vest based on FY23 EPS measured against the FY20 adjusted EPS of 108.8 US cents. If the company EPS over this period has grown by under 15.8% then no rights will vest. If the EPS has grown between 15.8% and 36.8% then a linear scale will apply from 0% vesting at 15.8% to 100% vesting at 36.8%. If the EPS has grown more than 36.8% then all rights will vest. It is highlighted that "…the EPS Growth measure will continue to be subject to constant currency adjustment and other Board-approved adjustments as applicable". An additional gateway condition for any of these rights to vest is that Ansell's ROCE as at 30 June 2023 must be at least 13.5%.

Another third of these rights will vest based on FY23 organic growth measured against the FY20 statutory sales of US$1,613.7m. If sales over this period have grown by under 9.3% then no rights will vest. If sales have grown between 9.3% and 19.1% then a linear scale will apply from 0% vesting at 9.3% to 100% vesting at 19.1%. If sales have grown more than 19.3% then all rights will vest. It is highlighted that "…the Organic Revenue Growth measure will continue to be subject to constant currency adjustment".

The final third of these rights will vest based on return on capital employed (ROCE) over the period FY21 to FY23. If the ROCE over this period is under 13.9% then no rights will vest. If the ROCE is between 13.9% and 15.5% then a linear scale will apply from 0% vesting at 13.9% to 100% vesting at 15.5%. If the ROCE is greater than 15.5% then all rights will vest. It is highlighted that "…ROCE for remuneration outcomes is adjusted for acquisitions".

Mr Nicolin is expected to retire on or before 31 December 2021 and all awards will remain "on foot" on his retirement and will vest based on company performance up to 30 June 2023. 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.

There are no voting rights or entitlements to dividends on unvested rights.

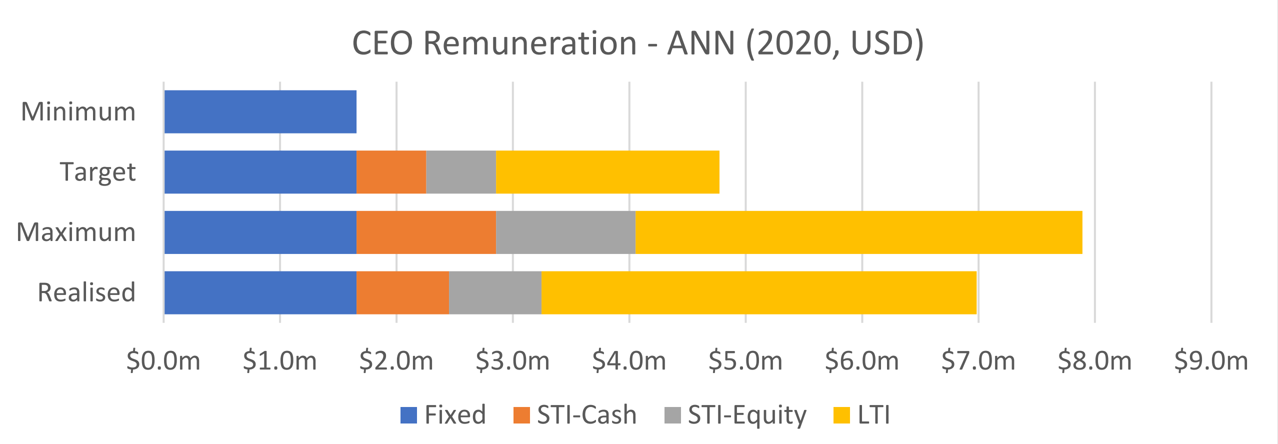
Whilst the maximum possible award of the LTI compared with base salary (360%) is quite high, it is based on a lower fixed salary than comparable companies and past history suggests that the board set more difficult targets than most other companies (the unweighted average LTI grant over the past six years was 33% of maximum). We believe that the outcome is aligned with shareholders.

Our major concern with this award is that the targets for LTI plans are routinely adjusted and are impossible to reconcile with supposedly the same figure in the financial statements. We are also concerned that the performance period for LTIs, at three years, is too short for a company such as Ansell and that awards can be paid when shareholder returns are negative.

For these reasons we cannot support this award.

Item 5	**Adoption of Remuneration Report**
ASA Vote	**Against**

Summary of ASA Position



Source: Australian Shareholders' Association and company 2020 Annual Report, realised STI & LTI are from prior years

The amounts in the table above are the statutory 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.

The presentation of the Ansell Remuneration Report remains probably one of the best around and shows that such a report can be both understandable and provide much of the necessary information. We only wish that more companies would follow Ansell's example.

Ansell remuneration is part fixed and part variable where the variable component should be considered variable pay rather than a bonus. Performance under target/expectations will result in lower pay, performance above target/expectations will result in higher pay.

The remuneration structure is essentially unchanged from last year with three components – fixed remuneration, short term incentives (STI) and long-term incentives (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, EBIT, inventory turns, cash flow, and profit, with 10% based on individual objectives. Normally at Ansell all STI awards up to target are paid as cash and all awards over target are paid in restricted shares however, due to the Covid pandemic, 50% of this year's STI were deferred for two years. All STI achievements this year were above target (66% of maximum possible for CEO and 65-66% for other executives). 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 48% 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 (200-250% max for other executives) are discussed in the item above so will not be repeated here.

Like the item above, our major concern with Ansell's remuneration is that the targets for LTI plans are routinely adjusted and are impossible to reconcile with supposedly the same figure in the financial statements. We are also concerned that the performance period for LTIs, at three years, is too short for a company such as Ansell and that awards can be paid when shareholder returns are negative.

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