

## Ansell Limited Announces 2018 Results

### Continuing Operations Performed Strongly, Delivering Organic Sales and EPS Growth

**20 August, 2018** – Ansell Limited (ASX:ANN), a global leader in protection solutions, today announces full-year results for the period ending 30 June 2018.

#### Results Highlights *(Please note all dollar amounts in this release are reported in US dollars)*

- **Statutory Profit Attributable of \$484m including \$345m after-tax gain on sale of Sexual Wellness**
- **Sales from continuing operations \$1,490m, up 8% YOY**
  - **Organic<sup>1</sup> sales growth of 4.0% in constant currency (CC)<sup>2</sup>. Industrial 5.2%, Healthcare 3.0%**
  - **Industrial organic sales growth strengthened to 5.7% in F'18-H2, Healthcare moderated to 1.7%**
- **EBIT from Continuing Operations of \$158m. Adjusted EBIT<sup>3</sup> of \$193m, up 9% YOY**
- **EPS from Continuing Operations of US96.5¢, up 19% on last year**
- **Adjusted EPS<sup>3</sup> from Continuing Operations of US102.0¢, up 26% on last year, and towards the upper end of the directly comparable guidance range of US96¢ to US106¢**
- **Strong balance sheet and cash position**
- **Increased full year dividend of US45.5¢; final dividend up 5% to US25.0¢**

Financial Summary	F'17			F'18			% Movement YOY	
US\$M unless stated	Total Group	Discontinued	Continuing	Total Group	Discontinued	Continuing	Continuing	Continuing CC <sup>2</sup>
Sales	1,599.7	225.2	1,374.5	1,547.5	57.7	1,489.8	8.4%	5.1%
EBIT	217.8	40.0	177.8	557.0	399.2	157.8	-11.2%	-13.7%
Total Adjustments <sup>3</sup>			-	(361.6)	(396.9)	35.3		
Adjusted EBIT <sup>3</sup>			177.8	195.4	2.3	193.1	8.6%	4.9%
Profit Attributable	147.7	28.2	119.5	484.3	345.5	138.8	16.2%	9.2%
Earnings Per Share	100.1	19.1	81.0	336.8	240.3	96.5	19.1%	11.9%
Adjusted Earnings Per Share <sup>3</sup>			81.0			102.0	25.9%	18.0%
	Total Group			Total Group			Total Group	
Operating Cash Flow (\$M) <sup>4</sup>			146.0			93.6	-35.9%	
Dividend			44.0			45.5	3.4%	

1. Organic growth compares F'18 to F'17 results at Constant Currency (see below) and excludes the effects of acquisitions, divestments and exits.
2. Constant Currency (CC) compares F'18 to F'17 results restated at F'18 average FX rates and excludes the value of FX gains or losses in both periods. See Slide 39 of F'18 Full Year Presentation for additional information.
3. Adjusted EBIT excludes a.) transformation costs and b.) impact of change to useful life on development costs to generally expense as incurred. Together, these are Total EBIT Adjustments. Adjusted Earnings Per Share, excludes Total EBIT Adjustments and the deferred tax revaluation following corporation tax rate changes (primary impact in US).
4. Operating Cash Flow means net cash provided by operating activities per the Consolidated Statement of Cash Flows adjusted for net expenditure on property, plant, equipment, intangible assets and net interest.

## **Comments by Ansell Chairman, Glenn Barnes**

“The year has seen significant positive change in our company as we re-shaped it to be a sharper focused enterprise following our exit from the Sexual Wellness business. The Directors have been pleased to see the maintenance of organic growth in a year when our people have been called upon to complete the challenges of exiting from a major business and re-shaping our remaining core. Our structural Transformation Program is tracking well, with current year benefits ahead of plan, and the whole program on track to deliver gains in sustainable profit and cash flow for the next two years.

We have continued to seek opportunities in M&A in a disciplined fashion. The current year’s activity saw many opportunities reviewed without a major deal, with the right characteristics, eventuating. However, given the structure of the marketplaces we operate in, we still see disciplined M&A as an attractive and strategically sensible capital deployment option for shareholders. Meanwhile, we are once again increasing the dividend to shareholders and our share buyback program remains active.”

## **Business Review – Comments by Ansell CEO and Managing Director, Magnus Nicolin**

“Ansell continues to make progress in the execution of its growth strategy driven by innovation, emerging market expansion, brand focus and distribution partnerships. It was also encouraging to see the strong improvement in margins through the year following a first half that was affected by temporarily higher raw material costs.

Our Industrial division had a strong performance. We continued to build upon our leading position in the growing global personal protection sector in what were generally positive external market conditions. We saw strong contributions from our newest distributor partnerships, our growth brands continue to drive impressive growth benefiting from the continued success of new products and we saw good results from continuing to build greater exposure to fast growing emerging markets.

Our Healthcare division achieved moderate growth and we experienced more difficult market conditions in our surgical business. Nonetheless, we achieved solid overall organic growth of 3.0% and increased EBIT as margins improved sequentially in the second half. Our single use products to industrial and life science end markets continued to perform very well, with organic growth of 7.2% and 8.4% respectively. The surgical business struggled to achieve growth in comparison to the prior year which benefited from distributors restoring normal levels of inventory after the supply disruptions of F’16 were resolved. Despite good customer acceptance of new products, the surgical business did not achieve the level of new business wins we targeted in an increasingly competitive end market. We remain confident in the strength of our market position, with a broad, innovative, and high quality product range supporting a unique global leadership position and are confident that the steps we have taken in F’18 will result in improved surgical business results in F’19.

As we predicted in the half year report, F’18 H2 margins in both divisions improved significantly compared to F’18 H1 with the adjusted continuing EBIT margin over 100bps higher in the H2 than the prior comparative period. The first half was impacted by the temporary spike in raw material costs seen in the market over 12 months ago, but which affected our cost of goods sold during the early months of F’18. In addition, second half margins benefited from the full impact of price increases, a generally improving product mix, strong performance by our operations team in improving productivity and reducing waste, and the initial benefits of our Transformation Program.

The Transformation Program continues to progress well and is slightly ahead of expectations at this point. The SG&A component of the program is largely complete, with cost reductions delivered and our sharper focus organisational structure realising the benefits intended. Our manufacturing and supply chain components of the Transformation Program are well advanced to deliver expected benefits in F'19 and more significantly into F'20. Strong and focused change management processes have accompanied the changes and the initial steps have been completed smoothly in line with expectations and we are on track to meet or exceed our savings targets of at least \$30m by F'20.

Our original goals for our \$100m Transformation Program encompassed both cost reduction and growth investment, with \$50m of the program targeted to growth investment. These plans are also on track. The expansion of our Vietnam facility is proceeding smoothly and we are confident this site will be a cornerstone of Ansell's manufacturing leadership in advanced hand protection for years to come. We are in the advanced stages of finalizing a \$30m multi-year investment in our differentiated single use chemical resistance technology with a focus on industrial end markets. This new investment will allow us to retain in-house the critical process and technical know-how essential to the product range, while also allowing us to build the scale to be highly cost competitive. In addition, we are developing plans to invest \$10m+ in our Chemical and LifeScience manufacturing centers of excellence in Malaysia. Finally, in support of our plans for manufacturing leadership we plan to begin a multi-year program of upgrading the operating systems used in our supply chain and manufacturing facilities, a key enabler to our overall supply chain excellence, manufacturing productivity objectives and digital e-commerce deployment.

We remain very active in evaluating M&A opportunities while also remaining disciplined against both strategic fit and value creation criteria. Although we have passed on some possible acquisitions this year following thorough due diligence processes, in other cases we remain in active discussions and our pipeline remains robust. We continue to believe that success through a disciplined acquisition process will best position Ansell to generate long term shareholder value growth.

I would like to thank the employees of Ansell. They have accomplished a lot and executed very well against a series of highly complex strategic initiatives, not least completing the divestment of Sexual Wellness earlier in the year, while in parallel delivering on our ambitious Transformation Program.

## **Global Business Unit Performance**

### **Healthcare GBU – 52% of revenue and 62% of Segment EBIT**

Sales grew 5.2% in constant currency including the benefit of the Nitritex acquisition in F'17 H2 and the completion of a small acquisition, gammaSUPPLIES in F'18 H1. Organic revenue growth excluding acquisition benefits of 3.0% benefited from 8.6% growth in sales to emerging markets.

Exam/Single Use sales increased 3.2% on growth in industrial and medical non-acute applications. Sales of Life Science products were up 8.4% organically with additional growth arising from the Nitritex and gamma SUPPLIES acquisitions. Surgical and safety solutions growth moderated to 1.0% in comparison to a prior period which included the temporary benefit of distributors restoring normal safety stock levels.

Adjusted EBIT<sup>3</sup> in constant currency was 5.6% higher on prior year, with improved second half margins overcoming the first half impact of higher raw material costs. EBIT also benefited from a \$4m reversal of accrued prior period indirect taxes now determined as no longer payable. On a reported basis, sales were up 7.8%, with Adjusted EBIT<sup>3</sup> up 9.1%.

## **Industrial GBU – 48% of revenue and 45% of Segment EBIT**

Sales increased 5.0% in constant currency whilst organic growth was up 5.2% with continued momentum from growth brands, new product sales, emerging market expansion and further advancement on focused channel strategies and distributor partnerships. Ansell technologies continue to gain traction across global markets with strong performance in HyFlex® Fortix™ and Intercept™.

Mechanical sales growth of 6.4% benefited from strong growth of new products across both gloves and sleeves. Chemical growth of 1.4% was affected by significant destocking at one major customer, which largely offset significant success with the recently acquired Microgard® clothing range up 9.2% and recent successful innovation contributing to 17.7% growth of Alphatec® brand.

Adjusted EBIT<sup>3</sup> in constant currency was 4.3% higher on the prior year with EBIT margin slightly lower on the impact of higher raw material costs in the first half. On a reported basis, sales and with Adjusted EBIT<sup>3</sup> were both up 9%.

## **Corporate Costs not allocated to GBUs**

Unallocated corporate costs in F'18 of \$13.9m include a \$3.7m provision for expected demolition and site clearance costs of a legacy Pacific Dunlop site in Louisiana, US. Corporate costs in F'17 of \$12.1m include \$2.1m of portfolio review costs incurred in preparation for the sale of Sexual Wellness and development of the Transformation Program.

## **Discontinued Operations and Adjustments to Continuing Operations EBIT**

Adjusted EBIT and EPS exclude the following items to aid underlying comparisons to the prior reporting period:

- costs associated with the Transformation Program announced in July 2017 (\$24.1m pre-tax), and
- the two major non-cash accounting impacts announced previously as part of half year reporting being
  1. the gain associated with the revaluation of deferred tax balances following corporation tax rate changes (primary impact in US) (\$18.7m tax benefit), and
  2. the impact of change to estimating useful life of development costs to generally expense as incurred (\$11.2m pre-tax).

Discontinued operations include the results of the Sexual Wellness business prior to divestment and the gain on sale of the business of \$398.2m pre-tax, \$344.8m after tax. The gain on sale has reduced moderately, vs our prior estimate, on revised tax calculations and final costs of disposal.

## **Currency, Cash Flow, Taxation and Financing**

The impact of currency was favorable to US\$ revenues by \$42.9m, primarily on a strengthening Euro vs USD. The benefit to EBIT was \$7.2m as the benefit of stronger revenue currencies was partly offset by strengthening cost currencies, and a moderate loss on currency hedging.

Operating cash flow generation of \$93.6m was lower than last year's \$146m primarily due to the sale of Sexual Wellness and loss of cash flow generation by this business. Higher short-term incentive payments and transformation cash expenditure of \$19m were also included.

Liquidity is very strong after the receipt of the Sexual Wellness sale proceeds with the Company in a net cash position of \$28m at year end with no gearing.

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The current share buyback program was active in purchasing 5.2m shares at a cost of \$92.3m during F'18. Total purchases to date under the program are 5.4m at an average price of A\$22.53 per share and a cost of \$96m.

The F'18 adjusted effective tax rate (excluding the revaluation of deferred tax balances) benefitted from the US tax reform impact on the ongoing tax rate applicable to our US operations and a restructuring of a portion of our US holding Company structure, to improve our funding flexibility following the SW divestment.

The restructuring gave rise to a capital loss which was partially used to offset the capital gain on the SW divestment (and included in the estimate given of the after-tax gain on sale) with the balance, \$5.8m tax effected, available to carry back against previously recorded capital gains. As such, this restructuring resulted in a reduction to continuing operations taxation in the F'18 H1 results.

### **Dividend**

A Final Dividend of US25.0¢ (US23.75¢ in F'17) per share unfranked has been declared. The record date will be the 27 August, 2018 and the payment date 13 September, 2018. This takes dividends for the full year to US45.5¢, an increase on the total dividend of US44.0¢ in F'17. For non-resident shareholders, the dividend will not attract withholding tax as it is sourced entirely from the Company's Conduit Foreign Income Account.

### **Dividend Reinvestment Plan (DRP)**

The DRP will be available to shareholders with an election cut-off date of 28 August, 2018. No discount will be available.

### **F'19 Outlook**

External market conditions in F'19 are expected to generally remain supportive to top line growth. However, they are also creating tight demand / supply conditions particularly for nitrile latex and these recently led to increases in the raw material costs for these and other materials, with only limited offset from a weaker natural rubber latex price. The impact of the potential introduction of new tariffs on imports from the US to China remains uncertain.

We are targeting continued organic revenue growth in the 3-5% range, and expect transformation cost benefits, pricing and product mix actions to benefit EBIT growth.

A higher effective tax rate is expected to be unfavorable to F'19 EPS by approx. 3-5¢ vs F'18.

Overall we anticipate adjusted EPS in the range \$1.00 to \$1.12.

If increasing raw material costs are sustained and tariffs introduced on US imports are confirmed at the higher levels proposed, the cost impact, before mitigation, could represent a 5-6c downside to midpoint of range. Mitigation plans are being developed with a target to substantially offset by end F'19, but with some short term negative impact possible.

Continued success in our capital deployment strategy through acquisitions or share buybacks could contribute to outcomes above the midpoint of the range or would help offset any temporary unfavorable impact from sustained higher RM costs or a confirmed tariff impact at the high end of our expectations.

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Transformation P&L cash costs in F'19 (excluded from EPS guidance range above) are estimated to be \$20-23m with an additional non cash fixed asset write down anticipated in the range of \$20-30m. The overall cost of the transformation program remains in line with the amounts communicated on the launch of the initiative in July 2017.

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**About Ansell**

Ansell is a world leader in providing superior health and safety protection solutions that enhance human well-being. The world's need for better protection never stops, so Ansell is constantly researching, developing and investing to manufacture and distribute cutting edge product innovation and technology, marketed under well-known brands that customers trust.

Operating in two main business segments, Industrial and Healthcare, Ansell is the market leader that continues to grow, employing over 12,000 people worldwide. With operations in North America, Latin America/Caribbean, EMEA and Asia Pacific, customers in more than 100 countries around the world trust Ansell and its protection solutions.

Information on Ansell and its products can be found at [www.ansell.com](http://www.ansell.com). #AnsellProtects



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