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Ansell Limited
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Ansell Limited today reported EPS of US$0.534, down 3 percent. Without the benefit of a net deferred tax adjustment partly offset by plant restructuring expenses, EPS was US$0.505, slightly above your US$0.46 to US$0.50 guidance range. You expect EPS in the current year ending June 2008 in the range of US$0.56 to US$0.60, implying growth of at least 11 percent. What assumptions underlie this guidance?

CEO Doug Tough
We're expecting another year of broad-based organic sales growth across all three businesses and solid contributions from our acquisitions. We're also expecting better profits because we'll be streamlining and improving our portfolio by exiting some of our lower margin businesses. At the same time, we anticipate a relatively benign latex price scenario, with flat latex costs (in US dollars) versus 2007, and expect to continue to invest in building our capabilities.

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Second half EBIT was US$52.9 million, up 3 percent compared with the previous corresponding period, on revenue of US$515.1 million, up 14 percent. Can you maintain the EBIT levels of the second half? Will EBIT growth continue to lag revenue growth?

CFO Rustom Jilla
The 2008 EBIT growth rate should exceed the sales growth rate. Remember that 2007 saw a large increase in operating expenses as we focused on sales growth,

both organic and via acquisitions. In addition, latex was a $12 million net negative, year on year.

We expect to improve upon the second half's solid EBIT performance. In the second half Professional's EBIT doubled compared with the first half due to the flow-through of lower cost latex bought in the first half and higher surgical glove sales. New surgical capacity will come on-line soon and latex will hopefully be no higher than in the 2007 financial year. Occupational has had strong sales and margins and these should continue, while our condom acquisitions have been performing in line with their business cases. Growth and support expenses will increase, but by less than in 2007.

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Excluding acquisitions, Ansell's revenue growth in 2007 was 12 percent compared with 4 percent organic growth in 2006. Is 2007's organic sales growth rate sustainable?

CEO Doug Tough
Yes, it's sustainable – but not at the double digit pace of 2007. A part of our latex exam glove business doesn't generate adequate margins. We can't reduce costs quickly enough and must increase selling prices – even if it results in lost sales.

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SG&A expenses were US$213.2 million in 2007, up 26 percent or US$43.5 million, chiefly reflecting a US$29 million increase in "growth" expenses including sales & marketing, science & technology, and business development. When do you expect pay-back from this increase and what's the expected level of expenses going forward?

CEO Doug Tough
We need to invest in order to grow. That is, investing in people, products, channels and infrastructure. Some pay-back is already occurring. For instance we created a small M&A team which drove the Unimil and Blowtex acquisitions.

We rigorously monitor the performance of areas we invest in to ensure we're getting an adequate return. Our business cases are reviewed regularly, reported to the board and modified as necessary. We're in a lot of countries and markets but there are many we're not in, so we'll continue to invest in growth.

CFO Rustom Jilla
About US$9 million of the increase was simply the added SG&A costs of Jissbon, Unimil and Blowtex. Some expenses, such as fees/commissions and short-term incentives, are directly linked to higher sales. Others are related to geographical expansion, such as in Latin America or building our Occupational business in China.

We are planning for SG&A costs to continue to increase in 2008 in absolute dollars and also as a percentage of sales, as the investment mentioned earlier continues. Of course, these expenses and the margins from higher sales are factored into our EPS guidance.

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You've indicated that higher latex prices had a US$12 million net negative impact on Ansell's 2007 earnings. What progress have you made in passing on the high latex costs of last year and what's your strategy going forward?

CEO Doug Tough
Our progress in achieving higher selling prices has been mixed. In Europe we've been more successful with price increases on our exam and household gloves than in the US. Latex prices are very volatile and we welcome the current lower costs but don't count on them. Our strategy is to innovate, focus on higher value products and find reliable, good quality suppliers for the more commoditised products, such as exam gloves.

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Ansell's 2007 result was underpinned by Europe, where segment EBIT was US$47.1 million, up 39 percent on revenue of US$378.5 million, up 21 percent. What were the main drivers of these results and to what extent can the strategies that have worked in Europe be applied to the Americas, where revenue rose by 8 percent while EBIT was down 30 percent?

CEO Doug Tough
Our Occupational business in the Americas had one of its best years ever with good sales and EBIT growth before being impacted by western hemisphere plant cost overruns. However, I'd accept that US Professional and Consumer profits were soft, and this along with higher investments in growth, pulled down the overall Americas results.

Our European success was broad based across all three businesses and a reflection of a number of factors. The most important however was the two to three year investment in people, organisation and structure aimed at achieving these kinds of results. All our regions have similar selling techniques and products. However, each region has got to fire on all cylinders in terms of people, products and marketing.

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In the Occupational business, which represents 49 percent of Ansell's total sales, EBIT margin was 13.0 percent down from 14.3 percent, although the second half margin of 13.7 percent was an improvement on the first half's 12.2 percent. What ability do you have to improve Occupational margins in the nearer term?

CEO Doug Tough
We seek to maintain and grow Occupational margins through ongoing education – as markets and users get more sophisticated, they trade up to more sophisticated, higher performance products that bring better margins. I'd liken it to the Professional market which goes from powdered latex surgical gloves to powder-free latex and synthetics. We see that sort of evolution in the Occupational business too.

CFO Rustom Jilla
If you add back the US$2.2 million in plant restructuring provisions booked at the end of the second half, our overall Occupational EBIT to sales ratio was actually 14.6 percent. This is at the higher end of the 12 to 15 percent range we usually see, and we would be quite happy for these margins to continue while we achieve strong sales growth!

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In the Occupational business, revenue from the HyFlex glove range reached US$113.6 million, up 31 percent and equivalent to 24 percent of segment sales. HyFlex sales, in both volume and value terms have seen compound annual growth of 22 percent over the past six years. What's the outlook for the range? Can the momentum be maintained?

CEO Doug Tough
There are now 20 different gloves in the HyFlex range and we expect to roll out more during fiscal 2008. Everyone recognises HyFlex is a better product, and as safety standards evolve in emerging markets over time this should lead to additional sales of these more sophisticated products. We'd expect HyFlex to continue to grow but perhaps not at these rates!

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The Professional business booked EBIT of US$19.7 million, down 32 percent, on sales of US$320.1 million, up 11 percent. Margin fell to 6.2 percent from 10.0 percent, and even though the second half margin of 7.8 percent was better than the first half's 4.3 percent it was below the previous second half's 8.9 percent. What's your strategy to recover Professional margins given latex prices remain high and competitive pressure is unabated, particularly in exam gloves?

CEO Doug Tough
The problem is in exam gloves and it's worth noting that we also have a line of synthetic nitrile exam gloves that make an adequate profit contribution. Looking just at natural rubber latex (or NRL) exam gloves, our strategy is first to price to get margins to a satisfactory level. To the degree that means losing customers then that's regrettable but it's reality. Some of 2007's robust organic growth was from strong sales of NRL exams, albeit at low margins.

Firstly, we won't have that growth this year because we'll be walking away from some of that business. Secondly, we'll be trimming the product line where we can't make money and there's no long-term solution. Finally, we have product initiatives, whether in marketing and/or innovation, to differentiate ourselves and reclaim margin.

CFO Rustom Jilla
Our surgical glove business continues to be attractive and did very well in 2007. We're bringing out new products, adding new capacity at two of our three surgical plants (via conversions and a brand new line) and will cease being capacity constrained during the first half of fiscal 2008. An increased proportion of surgical sales should help improve our margins going forward. Of course, if latex prices end up lower than in 2007, we'll also benefit.

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In the Consumer business EBIT was US$23.5 million, up 31 percent on revenue of US$176.2 million, up 30 percent. Margin was 13.3 percent, a slight improvement on the previous year's 13.2 percent but below historical levels of over 15 percent. Excluding the contribution from acquisitions, EBIT growth was just 3 percent. What are your plans for Consumer given your increased manufacturing footprint and what's the outlook for margins?

CEO Doug Tough
We've grown the Consumer business both organically and by bolt-on acquisitions, as demonstrated by the three we've made in the last two years. In total, the acquisitions give us some surplus capacity and we're in the early phase of understanding and improving the cost effectiveness of these plants. We'll be looking at extending our best practice learnings from our plants around the world and gaining efficiencies in the way we supply our European and Latin American markets.

CFO Rustom Jilla
It's worth noting, however, that these acquisitions were not done to add manufacturing capacity. We wanted these businesses for their brands, their market positions, and their growth potential.

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Ansell had free cash flow of US$62.6 million in 2007, down from US$76.7 million in the previous year. During the year Ansell invested US$63.9 million in acquisitions, spent US$63.5 million on buy-backs and increased total dividend payments to US$25.3 million. As at the end of June 2007 net debt was US$114.5 million, up from US$58.4 million a year earlier, and gearing was 18.1 percent, up from 10.8 percent. Given you're seeking further bolt-on acquisitions, what are your capital management plans for the current year?

CFO Rustom Jilla
We continue to have a balanced capital management strategy of investing in the business and returning surplus funds to our owners mostly via share buy-backs as we have no franking credits.

Our preference is to invest in growth be it through internal investments or value adding acquisitions. We seek to continually have buy-backs authorised and available to use as a capital management tool. Whether or not we're in the market buying shares will depend on the alternatives available and what, in our opinion, provides the best total shareholder return. In the first five weeks of fiscal 2008, we bought back 2.8 million shares after staying out of the market since early May, partly because some acquisition activities did not happen per the expected timeframes.

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Ansell announced an unfranked final dividend of A$0.14 per share, up from A$0.12 in 2006, bringing the total dividend for 2007 to A$0.24, up from A$0.21. Why have you increased the dividend when earnings and cash flow were down?

Aren't you creating high expectations of dividend growth when earnings and cash flow recover?

CFO Rustom Jilla

We originally set our dividend level so it was sustainable with room for steady growth. We've been disciplined in returning much more surplus cash to our owners by way of share buy-backs than by way of dividends. As we've continued to reduce the number of shares on issue while increasing the dividend per share, the total paid out remains very affordable and leaves room for us to continue our steady dividend per share growth.

CEO Doug Tough

We're running the business with a view to long-term consistency and sustainability. So if things are going well, we won't increase the dividend to a level we can't sustain, and if things aren't so good, we wouldn't lose sight of our long-term prospects. In 2007 our profitability was off a little bit, but that doesn't affect our long-term view of the business. Based on this, the dividend increase fits the plan like a glove!

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Thank you Doug and Rustom.

For more information about Ansell, visit www.ansell.com or call David Graham on (+61 3) 9270 7215

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