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Full Year 2019 Ansell Ltd Earnings Call

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PRESENTATION

Jocelyn Petersen ***Ansell Limited - VP of Global FP&A, Treasury and IR***

Greetings. Greetings from Melbourne, Australia. My name is Jocelyn Peterson, I'm the Vice President of Global FP&A, Treasury and Investor Relations. And I'm delighted to welcome you to Ansell's Full Year Fiscal '19 Earnings Results. With me today, we have our Managing Director and CEO, Magnus Nicolin; as well as being introduced for the first time is our new CFO, Zubair Javeed.

Today's earnings release and accompanying investor deck have been lodged with the ASX, and they should be available shortly on -- in our Investor Relations section on infill.com.

If you can just take a moment please to read Slide 2 which is our typical disclaimer centered around our forward-looking statements and whatnot. As we -- today, we'll share our views on Ansell's future performance and expected financial results. Of course, all this information is inherently subject to uncertainties that are beyond the control of Ansell.

So I'd like to hand over the floor or the mic at this time to Magnus Nicolin, but at the very end of our session we will be opening up the lines in the room, of course, for questions. Thank you once again.

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

Thank you, Jocelyn. So as always, a pleasure to be back in Australia. Although I must say, it's a little bit cooler here than I'm used to in coming here, but a nice refreshing feel to the 40 degrees temperature we've seen in both the U.S. and Europe.

So let me start by as always thanking our amazing group of people at Ansell, very committed, very passionate to delivering results not only for shareholders but for customers and partners and employees alike. So a good job during a very complex year. With a lot of things happening in the global marketplace and of course a huge transformation program completing. So delighted with what they've been able to do.

So let's go into our results. And as always, we start with a perspective on safety. We're a safety company after all and we had a very strong year when it comes to safety. Our safety record was significantly better than in prior years. And as you know, we're already world-class since many, many years and you can compare it to a whole host of other world class companies. We tend to come in at the lowest level of injury of any company out there. So we're delighted with how we're continuing to progress on that. And we are spending meaningfully more time and effort also on the aspect of safety which means how we manage our plants over time, rest days, employment contracts and the like. And that's working very well at this point in time, requiring a continuous effort when it comes to our partners. So we continue to spend quite a bit of time with our key suppliers to have them comply with the same high standards that we operate under.

In terms of the trading environment, it has been quite interesting I must say. Not only do we have a global economy that swings pretty significantly. And you can see it in PMI rates that have come down rapidly around the world and also more recently in the U.S. So that's a meaningful factor. We also see of course significant trading issues emerging, as announced recently with the additional 10% import duty on a much broader list of products as far as we and the industry is concerned. So it's getting quite dynamic in the global marketplace.

Having said that, there are many countries and opportunities around the world that are still quite solid offering significant opportunities for growth not least in emerging markets. So we're not complaining too much about what's going on and the fact that we are less dependent on China than virtually all of our competitors also indicates that even if it scales up to a full-blown trade war we are not going to be directly impacted. Although, of course everybody will be indirectly impacted.

When it comes to our statutory results, it's really hard to draw too many conclusions from that because obviously last year we booked a very significant onetime benefit from the sale of the Sexual Wellness division. And last year, we also had some transformation costs. This year we have also significant transformation costs. So that's really what's reflected on this statutory page.

When it comes to the financial highlights here we see a summary of some of the key numbers. And if we're starting with the sales, 3% constant currency all in. But of course organically it was a little bit less than that 1.9. And we're not particularly happy about that, have taken some actions to address. But even with that relatively muted organic growth rate we delivered very strong results in terms of EBIT and especially EPS and a pretty amazing cash flow and cash conversion rate. So we were quite pleased with how the company is working through a somewhat complicated year if you will in delivering strong results on most metrics that are meaningful to track and trace in the sense.

As you know, we bought back quite a number of shares in the first half, a little bit less so in the second half as our share price was trading up meaningfully from first to second half. But generally, we're quite pleased with the results that was achieved during the year.

This is another way of showing some of the similar numbers obviously focusing here on the continuing business analysis. And we're seeing good positive leverage through the P&L with the 1.9 organic growth, translating to 11% EPS growth. And that is as it should be meaning we should have positive leverage through the P&L.

When it comes to our long-term guidance about 2 years ago and when we had our first Capital Markets Day in a long, long time we set these financial goals on the far left. And this result delivers reasonably well against those long term metrics. Yes, we failed on top line to deliver what we set out to do, although I must note that our Healthcare GBU which was not impacted by the downturn to the same degree delivered 4% organic growth. And we should feel pretty good about that. And we expect more good things to come from that business.

When it comes to EPS, we overshot the long-term guidance target with 11%. Roche were moving in the direction we expected to and, of course, are targeting that 14% to 15% range by the end of this year. And then cash flow, we said that, that is an important part of our long-term guidance, and we delivered a very strong outcome on cash generation and cash conversion. So quite pleased with that. So all in all, we're doing pretty well against our long-term guidance targets. And we should remember that the long-term guidance targets are not specifically designed to highlight every half or even every year. They're designed to be over a cycle which should be in those ranges.

So if we take that information then and move to this next page, we see in the center of the chart, an interesting illustration of the European PMI and the manufacturing side. The blue line indicates a fairly rapid fall off and that, of course has an impact. And that's why we see a tail or 2 cities between HGBU and IGBU with HGBU continuing to barrel ahead as if nothing happened whereas IGBU, of course, being somewhat impacted by that especially in Europe and especially in Germany which is a first in many, many years as Germany has been a very strong economy for quite a while.

If we dig under the covers a little bit we see some interesting effects here. Emerging markets continue to grow at a faster rate and everything green on this world chart indicates an emerging market with stronger developments and now accounting for 21% of sales. Obviously a lot more opportunity there and something we should continue to focus on.

We continue to focus our brands to fewer and bigger brands. You can see it in the bottom left, we're now 74% of total sales is under one of our top brands. And that is a way of having visibility and presence in the market that we think is quite valuable for strategic position and the long term strength. So quite pleased about that.

Moving to the next one on transformation, transformation largely completed during the year. And what you can see on this chart is what our status is on completion versus original plan. And in all cases we overdelivered compared to what we said when we announced the plan. We spent a little bit more cash but we substantially overdelivered on benefits and savings and efficiency and you see it translating into the big overall numbers, $35 million in annual savings versus the original intent of $30 million in annual savings. So a good success from this program. And as I said, it's completing or largely completed. We have some supply chain improvements that are currently being worked but with minimal spend at this point in time but where we expect to pick up additional savings later in the year. So we feel very good about the transformation program. And in the end, we now have fewer, bigger, more automated and more efficient plants supporting the companies. We are well-orchestrated, if you will, to meet whatever challenges come our way. And I think that's a powerful position to be in as we continue to work in this global environment.

On the next page, we highlight the Healthcare GBU, a strong result on top line, 4%. And we're seeing some very interesting developments in each of the sub-business unit or strategic business units: exam single-use, plus 3%; surgical, plus 3.4%; Life Science, plus 11%. And we're particularly pleased about how the Surgical business, one of our oldest businesses at Ansell, is having a bit of a revival. We've launched a number of new products. We're seeing strong success worldwide, really, all the way from the U.S. to Russia to Japan, in Australia and in Central and Northern Europe. So quite pleased about the Surgical business and how it's developing. And of course, it's all shifting synthetic and we're only about 30% done when it comes to that shift. Some markets are barely into synthetics. Some markets are 75% synthetic already. So we expect a continued emphasis on that shift, and that shift is very profitable for Ansell. So we see a lot of opportunity there.

Life science of course is a bit of a duel of a business. It's growing fast. We've made some acquisitions in that space. We continue to look for other opportunities. We continue to invest in a significant way to essentially take those opportunities to a higher level of sales.

We had some challenges on EBIT, and this is something you all and we all knew about going back 6, 7, 8 months. It's related to raw materials. And it impacted primarily the first half. And we see it in the improving profitability through the year and ending the year with a high level of profitability in this business. But obviously not recouping what was already under the belt so to speak after the first half. But the good news with that is we're entering the new year with that strong momentum of higher level of profitability in the health care business unit for F '20. So we have quite a bit of confidence in that business delivering very strong results in the current year.

Here are a couple of highlights. We continue to launch a number of new products. Glove in Glove is quite unique in the industry. It's a high-speed engineering feat to insert 1 glove into another at high-speed and in a fully controlled automatic fashion. And that's now starting to take off in the marketplace. We also have a mixed product, a hybrid, as we call it, between PI and sensoprene or neoprene and is a very successful platform that is winning accounts worldwide. Life Sciences, a number of new products as well, driving growth in that business. And we are adding salespeople aggressively around the world to pick up share and put pressure on the competition. And that's working quite well. A small acquisition in the space of health care, Digitcare to lock up the market on EMS or emergency medical care. I'm quite pleased with how that business is performing. So all in all, quite happy with how this business is doing.

When we go to industrial, it's sort of almost a reverse story. We're not happy with the top line for obvious reasons and it really slowed down rapidly from essentially March onwards. So what happened? Well what happened was essentially a slowing global economy, distributors get nervous and they start calling orders. And very often we've seen this many, many times before in other cycles, they all react and then it stabilizes and they come back and start to order again. And we're actually seeing that now entering the new year.

But the fact is, it did impact on fourth quarter and did impact on our results for the year. When we look under the cover in this business, mechanical was particularly hit, primarily driven by automotive industry slowing down in Germany and frankly worldwide. But on the other hand we're seeing continued development in our strategic initiatives on Intercept. As an example, we see the chemical business getting stronger and stronger. We see the clothing part of the chemical business growing nicely. So all in all, we're quite pleased with the underlying tactical implementation, if you will. And we believe that, that will lead to solid results going forward.

The big story though is transformation. And here, you can see a 190 basis point pickup in EBIT almost -- well I would say 75% or so traceable to transformation. The rest of it is pricing and mix management. So those are some of the good things done by the sales force here in driving forward and using our position to take position.

So this 14% is the highest level of profitability we've seen in this business in probably 6 or 7 years. And we're not quite done yet. So we're going to continue to obviously reap the benefit on the transformation program and the fewer, better, stronger plants that we now have. And there is actually some additional investments going into these plants to fully capture this.

Here are some of the highlight numbers again, core brand growth, and the real story here is AlphaTec, AlphaTecis sort of our next HyFlex. It's gone from a $30 million brand to now a $120 million brand. And it's going to had to close to $200 million when we're all done consolidating into the fewer stronger brands. And we're expecting that to also translate into a higher level of profitability for the brand. Edge of course is our price competitive brand. It was originally launched as an emerging market focused brand. We're now taking it to developed markets as well and it does help drive business when it's a really price competitive bid like situation. So we get in with Edge and then we upsell the market to HyFlex and AlphaTec and so forth. So it's working very well, and you see it in the numbers, 28% growth, and we expect that, that will continue.

So what is also interesting here is what's happening with cash flow. So we thought it would be helpful for you to look back a little bit in time. So on the left, we're showing our cash flow delivered per year going back to F '13. And we also show the cash conversion percentage in the line on top. And as you can see, this is a cash flow generative business. It's pretty solid year in and year out. And then the question is what do we do with that cash. And what we do is well we take care of our investors. So we've taken our dividends up now 16 years in a row.

Second, we have been returning cash to shareholders through a buyback program. And that's been running off and on. And depending on market situation and share price and so forth. But significant numbers being returned to shareholders. And, of course, contributing to the EPS growth that we're seeing. And the good news is we're not exactly out of cash for 2 reasons. One, we generate cash, as we showed on the previous page; second, because we have a very strong balance sheet. And we can either use that balance sheet to spend about $1 billion or $1.4 billion on acquisitions, or we can use it to buy back another $650 million worth of shares on top of the 170 that we already did last year. And we can continue to take up dividend. And of course, our intention is to do all 3, and that's pretty much what we said at Capital Markets Day. And that's why we feel we have a pretty good way to sustain not only our share price but the level of profitability that we deliver.

Increasingly taking care of other stakeholders is viewed by many investors as being very important. And by us, we have very high standards as a company when it comes to how we behave in the marketplace. We're adopting a slightly different stance when it comes to how we deliver results for all stakeholders. And obviously, our mission in life as an organization is to work for better society, better environment and a better business. And we've already talked about employees and a wider workforce and how we're committed to the safety. And we're obviously committed to the safety of our employees. But also as you all know to our customers', employees, and we do that through our Guardian safety programs and so forth.

Environment. We have adopted specific targets to reduce water use, energy use to how we manage material and environmental concerns and so forth. And all of this is going to be put into a new CSR and sustainability report that we are putting out at the end of October, early November. And that we will discuss some more at our AGM in November. But clearly, a strong commitment by the company and all of our employees to be that good company that works for a better society and a better environment.

So with that, I'm going to hand over to Zubair. He is joining us for the first time. He's got all of 3 months under his belt. He knows everything there is to know about this company. And I must say I'm very pleased with how he has come into the company and taken up the mantle from Neil who was a very good CFO and now is a very good industrial GBU president with an interesting mission on his hands. And we expect wonders from him as well as from Zubair.

So go to it.

Zubair Javeed ***Ansell Limited - CFO***

Thank you, Magnus. And as Magnus said, just joined the company a little over 3 months ago. I'm predominantly coming from a health care background. So perfect time to join the company when our healthcare franchise is performing the way it is. And I look forward to working with the team and developing many more opportunities in that space. So with that said, I will turn a little bit more detail in terms of the numbers that Magnus went through, we brushed over the statutory results, but let's just go about there for a moment.

This is a P&L summary and the format you're familiar with from prior earnings releases, but beginning with the F '18 statutory results that culminated in an EPS of just under $3.37. And of course, that included the Sexual Wellness gain on the divestiture of that business. And then the store period results. Backing that $2.40 out brought us to F '18 continuing results of 96.5 cents. And then, of course, we had several noncash items and transformation adjustments to make to the continuing results to get to underlying F '18 adjusted. I'll cover the noncash items in a moment.

But that brought us to 102 cents adjusted EPS for F '18. And that's the base we're comparing to. And just as a reminder, that 102 cents was right in the middle of the fairway in terms of our guidance of the upgraded guidance of fiscal '18.

Over to the right, we see statutory F '19 results of 82.6 cents in terms of EPS. And again consistent with our guidance, previously we back out the transformation costs and that brings us to the top end of our guidance in fiscal '19, up 1 11.5 cents.

So looking a bit more in detail on Slide 22 for those that are following on the phone. We see on the left-hand side, the gain on the Sexual Wellness business. Again, that was completed in 2017, as well as the stop period results for the Sexual Wellness business and a small interest, we continue to earn in the JK Ansell joint venture.

With that said, we then brought back $0.13 in terms of transformation costs, 24.1 million was what we brought back in terms of EBIT. But that was, as a reminder, the heavy lifting on the SG&A side of the transformation program. So that was a successful period in the transformation project. And then there was a couple of nonrecurring items that we backed out of the fiscal '18 results, namely we no longer capitalized development costs as well as adjusting for the U.S. tax reforms in our deferred tax balances.

Over to the right on F '19 and a P&L, which we hope to keep this format on a continuing basis a lot simpler. We remove the one item which is transformation costs, that adds back nearly $0.29 to EPS. And that gets us to the 1 11.5 cents.

Just a point of note here, the transformation costs in this fiscal year, in fiscal '19, very focused on the operational footprint and the plant consolidations. So heavy lifting in fiscal '18 on the SG&A side, heavy lifting on the operations side in F '19. And we're pleased to say, as Magnus said earlier, we're right in where we guided 2 years ago on a very complex program, testament to our transformation leadership team, our operations teams and execute into plan and pretty much on budget for that program.

So back to our results. With the accounting housekeeping out of the way. We're now looking at F '18 and F '19 adjusted results. On a comparable underlying basis. And we, of course, include the constant currency performance to that. So you can see the true underlying performance without FX implications. And then in our notes, we're highlighting organic growth.

So beginning with F '18 and F '19 on the sales line you see we're at 3.2% sales growth. Clearly, on an as-reported basis you see the sales numbers are fairly flat. So those 3.2% constant currency growth, which signify a very turbulent year in FX terms.

If we were to restate our F '18 sales line using the average rates we felt in F '19 that's nearly $37.5 million impact to the prior year. That's how significant FX movement was. Again, in our appendix, you'll see the hedge book, we were able to offset a large portion of that, but this is something we're closely monitoring on a go-forward basis.

So with that said, the 3.2% comparing to our 1.9% organic growth on the top line of course includes the stop sales for the Digitcare and Ringers acquisition. And if you were to account for those, we're at 1.9% organic growth.

As Magnus said and again with my background, particularly pleased to see the healthcare franchise where it is. 4% growth is a very good platform to build on. We're reaching towards the top end of our guidance that we went to in the market in that franchise. But clearly, the slowdown in the IGBU is pretty reflective of the world economy, actually. So EMEA and North America deceleration is right in line with all the commentary that you're reading externally. That said, we do have strong positions in Latin America and APAC, and we were able to offset somewhat the muted growth there.

So the 3.2% constant currency growth. How does that look in terms of our gross profit after distribution expenses? Well it's -- we had a softer growth in that line. And as again magnus mentioned earlier, we had the performance muted in terms of gross profit by the high raw material costs, specifically in NBR or the nitrile costs that we were wearing pretty much through to the third quarter. And we also had some other mix in the material line that we -- again, we had as a headwind. Alongside that, there was some freight costs, distribution expense, which we highlighted in the first half that we were again had some onetime issues around there. And then we brought the margin back to where we needed to from a transformation cost offset.

Next in line is the SG&A row. And as you can see there, we're very pleased with the work again we did. Started back in F '18, we see the structural cost reductions in the SG&A line. Now here, recalling now there is a favorable impact from the release of an acquisition provision that we had in F '19. So when you're thinking about your models, if you see that at the bottom of that chart, 21.8% as a percentage of sales was our SG&A metric in F '18, we're at 20.8% this year. But again, as you're thinking about your models are probably the looking at in between that range is a more representative basis going forward as you model it now.

Now we haven't specifically called out what that onetime is because there's puts and takes through the P&L. So rather than get hung up on that, it's just better to hone in on the middle of that range.

With that said, our EBIT is now at 202.8. And then we drive down to the net interest line. Again we're right where we expected to be in this line and it's heavily impacted by our activity and share buybacks. And of course, M&A, that we have helped you and as we come on to that slide, we've helped you look at our cash balance and our net debt balance. So you can model that again going forward. But we'll come on to that in a little moment.

Taxes of now the effective rate is inching up towards our guidance. We said 20% as the low end in F '19 in the H1 call we're coming at 19.5%. Again, some good work from our tax teams. They're diligently working through truing up the U.S. tax reform. There, you can see we had some base erosion anti-abuse tax true up, there's a true up on the transition tax and foreign tax credits. Complicated work but we're through the back of that and we're at the lower end of our guidance. On a go forward basis, we are thinking about the range at 22.5% to 23.5% on that tax rate. So we've tightened the range there.

So with that said, I'll now see what that means in terms of cash. And as Magnus said, we are in a very good position in terms of cash, and this gives us flexibility on a go-forward basis for our capital deployment policies.

So if you take a look at the chart there on Slide 24, our EBITDA has a slight uptick versus F '18. But the big point here is our working capital improvement year-over-year which is effectively driving over $30 million worth of improvement. And this helps of course our cash conversion. So if we take our net receipts 213.9 million, we add back the transformation costs and compare that against our EBITDA. We consider we have good quality of earnings that we will continue to track on a go-forward basis and a healthy cash conversion or of to the 100%, which we want as a metric going forward.

We then see the net CapEx line, very similar to prior year as well as interest and taxes bringing us to an operating cash flow, again $133.3 million on the face of it. We add back the transformation costs we're north of $160 million operating cash flow which is a $50 million year-over-year improvement in cash.

What do we do with that cash? Of course we look at acquisitions. Over there on the right, we deployed on Ringers and Digitcare, and then there's the JK Ansell divestiture in that $80.2 million number. And then we've obviously got the dividend and share buyback in that year. Year-over-year, there's a cash movement, simply because we don't have the proceeds from the Sexual Wellness divestiture.

So what do we see in terms of raw material costs? Clearly, this was something. Again I highlighted earlier, we were wearing significant headwinds. But overall, on this slide, we've reintroduced what does the profile of our mix in terms of raw materials. We are a lot less dependent on natural rubber, latex and nitrile than we were, as you can see in the chart in F '10. However, we do still of course, closely monitor those -- the composition of our raw materials and those volatile categories. And in H1, we were very negatively impacted by high nitrile costs. They did dissipate in H2. I think we've all forecast that. However, spot prices at the moment are inching back towards higher ranges. So we're having to keep a closer look at that.

With that said, though, we do hope for some momentum, as Magnus mentioned into the first half of 2020 in that line.

The balance sheet is very healthy as we can see there on Slide 26. The points to know here are on the intangibles line. We have the reflection of the Ringers and Digitcare acquisition there in the intangibles line. We also have working capital, which includes stock bills for the transformation project plus we've obviously acquired the Ringers and Digitcare contribution within those numbers.

But with that said, 2 very pleasing points on this balance sheet. One is the net debt-to-EBITDA ratio of 0.6 turns on EBITDA gives us very good flexibility for the future as well as the return on capital employed, 30 basis points improvement within a year of acquisition and within a year of transformation is we feel a very good result.

On this slide also, we're adding just again to help with your modeling. It's a recurring question. We are showing net debt there in the box of 545 million and cash on hand and that $397 million. Now we're not precise on this number, but it helps to see our cash balances, and in the appendix, you'll be able to see the effect of interest rate. We acquire on that cash balance. Now that will of course change subject to M&A as well as dividends.

And then final slide before I hand back to Magnus, our CapEx spend $43.5 million in F '19 was clearly slower than where we forecast but we are dealing with some very complex projects. And one of those is the expansion of the Thailand facility. There you can see in the bottom of the chart, this is we're dealing with governments, we're dealing with building regulations. So the cadence of our CapEx is very much subject to that. I don't want you getting the impression, we've not got precise planning in these projects. But again, we are dealing with regulatory bodies that can somewhat slowed down our ambition in this area.

But with that said, we are happy we deployed the $43.5 million, it should hold us in good stead for the future. And we continue to forecast or expect to spend between $65 million and $75 million. We'll catch back up some of the CapEx from the prior years. But what's a point here and what we will really double down on is our core competencies. So in a turbulent environment, macro environment that we're seeing, what better way than to double down on surgical capacity, our chemical franchise and make sure we really have the platform for future growth in those countercyclical areas of our business.

So with that said, I will hand back to Magnus for key takeaways and Q&A.

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

Very good. Thank you, Zubair. So clearly, a lot of movement in the business and good execution against key initiatives.

So going to outlook, starting in the top left, we do see a continuous, very dynamic environment. And it's going to make it a little bit difficult for planning and how we organize the work around the company. But generally, it's not a terrible market by any means. We see strength in many markets around the world. We've seen, as an example, a strong comeback in Russia recently. We're seeing Turkey and going more in the direction of normalcy we don't see a huge weakness in China as yet. It may come, who knows. We're seeing Latin America continuing to develop quite well. So all in all, it's an environment that is difficult to predict. And trade tension, of course, can through a bit of a wrench into that.

So based on that, we're providing a relatively broad guidance range and 1 12 to 1 22. We, of course, hope and expect to be narrowing that as we go through the year. And that, of course, includes a return to stronger top line growth. And we have a number of reason to believe that, that is likely. When it comes to our understanding of the industrial business and the actions already taken to combat some of the weaknesses we saw.

And frankly, some of the overaction we saw from some distributors EBIT growth will continue to be favorably impacted by the conclusion of our transformation program, as well as pricing action that we continue to take in the marketplace. Raw material will help a little bit. We think that net-net, and product mix is something that we always work on.

We expect $0.01 accretion from Ringers. We're very happy with the acquisition. The team is phenomenal. We're starting to integrate the products into the overall Ansell sold sales force globally. And our sales force is super delighted to have this fantastic range added to the portfolio. And as we said, we expect minimal disruption from tariffs and Brexit but as I also said, it's hard to predict.

Offsetting this, of course, we have tax rate. And I think several ID out our expectations. It doesn't mean that we're going to be sitting on our hands when it comes to the 22% to 23 we always work really hard to find ways to mitigate and reduce and so forth. And that's part of the game plan also this year. But based on what we know today, that's what it is $0.05. And then, of course, FX is about $0.04. Again, we hedge actively, but there's a limit to what you can do through hedging programs.

And then the final comment is we have, as we talked about, a very strong cash position. We have excess cash on the balance sheet. We intend to continue to deploy it. You saw a bigger number for deployment against CapEx. We will continue to take up our dividend. We like the 16-year suite. We have no reason to think that we can't keep that going. We believe that buyback will offer some opportunities and we continue to work on M&A opportunities always. But we're going to continue to be picky. We're not going to overpay. We have a really strong track record on M&A, and we're not about to throw that out the window. So that really is what we're going to do. And to the right, you essentially see the graphical illustration of what I just said. So that says, on a constant currency basis, now adjust out FX, 9% to 18% constant currency growth. That's not too shabby in our mind when it comes to an uncertain year. And it comes on top of the past 2 or 3 years of steady EPS growth, allowing us to more than offset the loss, if I can call it that, of the Sexual Wellness business without even deploying half the cash as yet.

So we're in a pretty good place, and we have some interesting opportunities ahead of us. So the summary of takeaway is our shareholder value creation model works. We intend to continue to execute against it. And what you should expect is some improvement to organic growth. Continued margin expansion, transformation, completing, as we've said. So we're now about to harvest that heavy lifting, if you will, minimal impact from tariffs, further Roche improvement. We have a target, 14% to 15%, and we are approaching hard to get there. Strong cash conversion again and continuing smart and disciplined capital deployment activities.

So we intend to organize a Capital Markets Day coming up next March to really reaffirm our plan of attack and this is laid out as indicated on this page. So it's the week of March 15, 16 starting in Sydney and continuing to London and then to North America.

So that is essentially our plan of attack. Again, thank you for joining us here today. And thank you again to all of my colleagues around the world for pulling all this together. We're not done by any means. We have a lot of work to do but we think that we are in a good position to do that.

So with that, we're going to go to questions. And Jocelyn is going to be managing the flow of questions here. So let's go.

QUESTIONS AND ANSWERS

Jocelyn Petersen ***Ansell Limited - VP of Global FP&A, Treasury and IR***

Excellent. Thank you, Magnus. At this time, we will start with those that are specifically in the room. And I would be delighted to hand the mic over to Mr Andrew Goodsall. Welcome.

Andrew Goodsall ***MST Marquee - Healthcare analyst***

Thanks very much, Andrew Goodsall. Just on the guidance. I know you've been trying to wind back your China manufacturing exposure. So just great to get an update on that. But then secondly, to what extent does the guidance take into account the sort of final 10% that comes in September for tariffs?

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

Yes. So we have 1 plant in China to produce body production products. It's a great plant and they're doing really well. But we're growing in that business. So to accommodate or support that growth, we have actually opened a second significant plant in border protection, low and mid-market products in Sri Lanka. So that's -- we started that process about a year ago. So it's ramping up nicely. And it will give us some optionality depending on what happens here. But we don't expect major impact in the short-term or even medium-term on that Chinese business. China as a market accounts for less than 2% of our sales. So even if the Chinese economy is severely impacted. It's not going to have a dramatic impact on Ansell. So far, we see no evidence of that. Our team is actually doing really great work in China and continue to drive the business and deliver growth. So we're quite pleased about that.

Andrew Goodsall ***MST Marquee - Healthcare analyst***

Just to clarify, the final 10%, and I might just throw it...

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

On the final 10%, it is impacting more products. So what we're doing about it is, first, we're going back to our Chinese suppliers and we're essentially saying your currency is allowing you to absorb some of this. So do it if you want to serve Ansell then this is what you have to do to play the game. Second, we're obviously going to customers and saying there's nothing we can do about duty. You need to pay your share. And third, we're acting, as you implied in your first half of the question by moving production out of China. So we're acting on all 3 dimensions. And for that reason, the 10% is not going to disturb us too much. But it might go up to 25%. I mean, just follow the Twitter account, and you'll find out. But I would not be surprised if it goes to 25%, and then of course, we'll use the same 3 tactics. And we're confident that will offset most of it, if not all. And that's just the way we need to run the business.

Andrew Goodsall ***MST Marquee - Healthcare analyst***

And final question for me. you Mentioned the mood had changed in the sort of first quarter. And just -- is that still this case without the 10% or is that sort of a moving feast.

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

In terms of the industrial business and distributors? Is that what I mean? Yes? So we were, frankly, a little bit surprised, I must submit by the speed of movement from February to April, when a number of distributors were calling back orders. Now maybe we shouldn't have been surprised. Well, we shouldn't be surprised about the move. We could not have known the timing of the move. Meaning when we gave our guidance in February, we said that we do not expect any major economic change in the U.S. market. We already have seen at that time, the weakness in Europe. And then the U.S. market sort of caught up with reality and the rest of the world, sort of, and it happened in a rate dramatic month of March and April. But what we do know from previous downturns is the distribution overreacts. So they see a 5% decline in sales out. And guess what they do, they dropped their purchases by 10% and that's what we saw. That's now stabilized and even come back -- I can't draw too many conclusions from one month, but July, as an example, we saw some growth from some of the key distributors. Again, maybe a reflection. I don't know this for a fact but maybe a reflection of the fact that they called their inventories a little bit too aggressively.

Jocelyn Petersen ***Ansell Limited - VP of Global FP&A, Treasury and IR***

Thank you, Andrew. We'll shift gears now and we'll actually go to those on the line.

First up on the docket is Mr David Low with JPMorgan. (Operator Instructions).

Operator

(Operator Instructions)

David A. Low ***JP Morgan Chase & Co, Research Division - Research Analyst***

Please. If I could start with the organic growth guidance, so we had a difficult year, and I see that the guidance assumes that the organic growth range can be delivered this year despite challenges. Just wondering how much of that's coming from the pricing increases that you put through during FY '19.

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

There's a couple of million coming from pricing. Somewhere between 2% and 4%, I would say. On top of that, there were a number of onetime effects from last year, we had one of our big distribution partners in household gloves who went through some difficulty and significant changes and called back their purchasing from us by a significant number. They are now back to normal. We recently signed a new partnership agreement with them. So we expect them to be pulling at normal level, so to speak. We also saw last year some big effects in Russia, and Russia is now back to growth, actually. So there are a number of these effects that combined to give us the belief that we can go back to growth on the industrial business. And when it comes to the health care business, we do not see too many clouds on the horizon. It barrels ahead, a lot of strong wins in the marketplace in surgical. Life science is doing extremely well. Industrial SU sitting in the HGBU continues to do quite well, especially international expansion. So those are the reasons why we feel pretty good about reconfirming the 3% to 5%.

David A. Low ***JP Morgan Chase & Co, Research Division - Research Analyst***

Great. And if I could just follow-up on that. So I see from the guidance slide that the underlying growth is expected to be about $0.05, so about, call it, 5% growth. So that would imply that management expects organic growth in that north of 3% earnings growth above that. So the margin expansion that you're expecting extra transformation program pricing, is it pricing? Raw materials? Just wondering sort of what you think is going to drive up margins in FY '20.

Zubair Javeed ***Ansell Limited - CFO***

Yes. I think if you look at the margins where we exit in the fourth quarter, and we just run a line across that into the new year into fiscal '20, we're pretty much there already on those margins. And it's a culmination of everything you just said, pricing, raw material composition and the transformation benefits. So really, the transformation benefits, you're going to see on a full run rate basis in F '20. So again, that's the lift you've seen in the margin line.

Jocelyn Petersen ***Ansell Limited - VP of Global FP&A, Treasury and IR***

Zubair, to the extent that you address any other questions, they can't see you on the video. So you may want to stand up as you wish.

Next on the docket, we had Tom Godfrey from UBS. Good morning, Tom, over to you.

Thomas Godfrey ***UBS Investment Bank, Research Division - Analyst***

Firstly, if I could just start with the transformation program on Slide 12, it looks like there's an incremental $26 million of spend for P&L cash costs in FY '20. Just a couple of things on this, can you sort of help us with what these are tied to given you've already stated that the majority of the program is largely done? And then secondly why you're planning on not presenting adjusted results in fiscal '20 if we are still stripping out some one off costs?

Zubair Javeed ***Ansell Limited - CFO***

Yes, so the short answer in terms of fiscal '20 is where the transformation program's behind us now, so there should be no further adjustments in that fiscal. And in terms of the components it's pretty much the operations annualization that's coming through in fiscal '20 on the transformation program. Again, we're seeing that program really kick in, in H2 2019 and then we're getting the full year benefit in fiscal '20.

Thomas Godfrey ***UBS Investment Bank, Research Division - Analyst***

Okay. Great. And then maybe just changing tack, just looking at the commentary of some of your key U.S. distribution partners recently, it appears that I expect to offset any tariff headwinds through negotiations with some of their manufacturers. Can you just sort of talk to what you're seeing on this front? and whether you've had any discussions around pricing with them recently?

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

Yes, we had discussions with pretty much all of them. And the comments that we have conveyed to them is that this is a direct cost increase that we can't do much about and it needs to be passed on to customer. And in most cases, we're seeing that happening. And I'm sure there will be some smaller combination on certain individual cases but for the most part that's the expectation that in the end, it will be passed to customer. So that's, in essence where we are at this point.

Thomas Godfrey ***UBS Investment Bank, Research Division - Analyst***

Just on the Ringers acquisition, I think the guidance at the half year was that it would be $0.01 loss-making in fiscal '19 and then $0.01 accretive in fiscal '20. Is that not a $0.02 delta that should be factored in into you guidance or was it actually a neutral outcome in fiscal '19?

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

Well, maybe you want to comment on that, Zubair. I think we assume that it was going to be a $0.01 negative. I think in the end, it was probably slightly less than that. And I don't know if -- you want to add to that?

Zubair Javeed ***Ansell Limited - CFO***

Yes. I think in terms of that business, we're clearly still going through the integration on it. So we're taking the opportunity to rightsize that P&L, but we're taking our time. Clearly, the most important part of that acquisition is the revenue synergies. And if we have to be opportunistic on the cost base, that's what we're choosing to do. So we're not baking in the full $0.02 as you say. And yes, we're more focused on the top line and making sure the expense is commensurate with that growth that we want to yield. So yes, sure answer is no, we're not baking in the $0.02 in fiscal '20.

Jocelyn Petersen ***Ansell Limited - VP of Global FP&A, Treasury and IR***

Next on the docket, we have Steve Wheen with Evans & Partners. Good morning, Steve, over to you.

Steven David Wheen ***Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst***

Can I just confirm on the outlook guidance, the top end? Are you saying that you're putting some guidance out around potential future M&A and potential buybacks.

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

What we're saying is that we expect to be able to deploy cash against those 2 opportunities. And we have a very high level of expectation that, that will indeed be possible. And hence, we're saying that if we are deploying cash in that way, we'll contribute to results closer to the top end of guidance. So we recognize there's a little bit of uncertainty there, but given the variety of options and certainly the high likelihood of buyback opportunities, we are thinking about the risk in making that statement is quite low.

Steven David Wheen ***Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst***

Okay. And so can you tell us what sort of average price you've expected for the buyback?

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

No.

Steven David Wheen ***Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst***

Okay. I mean, to come up with that number, I'm just trying to quantify how much of it is related to it.

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

Well, I mean, we're not going to go there. But I think the fact that we're making the statement in our guidance summary indicates the confidence that we have and the belief that we have that the Ansell share is good value.

Zubair Javeed ***Ansell Limited - CFO***

I would add to that. The F '19 results have done nothing for our view on the detriment to our intrinsic value. So alongside our own DCF calculations, the intrinsic value is very much intact in the company. So if you look at our trading history on buybacks over the last couple of years, it's probably reflective of where we want to land going forward. But clearly, we're not going to give you a specific number on that activity.

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

The other thing you could do is just look at just the FX effects, Australian dollar to U.S. dollar. That alone has a little bit of impact on fair value, if you will.

Steven David Wheen ***Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst***

Yes. Okay. Second question I had was regarding the provision relating to the P&L based on the commentary around for our models, that would suggest about an $8 million benefit if you take 0.5% of sales which I think is what was being suggested. Is that the amount we need to take into consideration to back out?

Zubair Javeed ***Ansell Limited - CFO***

Yes. I mean, I think where I'm landing on that in terms of guidance, this is why I didn't want to get into the EPS puts and takes, but we're guiding you in the middle of the range because we do having done the heavy lifting on the SG&A side in transformation, we have more flexibility to be opportunistic in that line for our revenue growth aspirations. Clearly, we're in a turbulent environment. But if you're going to dial in $8 million, that's again it's probably a good number to dial in but it's not all to do with that provision release. That would just be the flexibility we have in that line on a go-forward basis.

Steven David Wheen ***Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst***

Okay. Is it right to be including a provision release into your P&L, but taking -- but not adjusting it out in your -- along with other things like transformation costs. It feels like it's very one-off for its inclusion, but it's not being reflected in the adjusted number.

Zubair Javeed ***Ansell Limited - CFO***

Yes. And I guess, it's a point that we've obviously have taken a deep look at. There's one-offs right the way through the P&L, in the margin line in the SG&A. And if I started reconciling all those normalization adjustments, you would have a pretty complex adjusted P&L. So basically, they're now in the P&L on the margin and the SG&A line. And the key there is, is our total operating expenses, making sure we have that on a normalized basis. And the geography of the P&L we were less focused in on. So that's how we're looking at it. But again, for your own models, if you're going to break out SG&A, we felt it appropriate to call it out.

Steven David Wheen ***Evans & Partners Pty. Ltd., Research Division - Senior Research Analyst***

Okay. And last one for me. Just on the guidance around non-cash transformation costs was previously around $20 million. But I think it came in at 11. Could you explain what was sort of originally expected to have been written off and now isn't?

Zubair Javeed ***Ansell Limited - CFO***

Yes, we had some equipment that we were transferring from our Vietnam facilities where we took the opportunity basically to transfer the equipment rather than write it off. And that was...

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

If I can build on that, we actually have quite a bit of equipment in Mexico we originally thought was going to be a write-off. But as on closer inspection, we concluded that some of it was actually quite good. And it was worthwhile putting it on a container and shipping it to the other side of the globe. So we ended up reusing or repurposing more equipment than we had anticipated. And that's been beneficial both to that and also to the CapEx needs. And that's why we got a small help, if you will, on the need for further CapEx. And the same thing applied to the Korean plant shutdown. We saw some opportunities to repurpose more equipment than we had anticipated. It doesn't mean that all the equipment was perfect and some of the stuff that we shipped subsequently we concluded wasn't as good as we would like it to be so then it was written off. And that's -- those are the kinds of puts and takes you would expect in a complex move where you're shipping thousands of pieces of machinery, which we have done. But in the end, we're quite pleased with how this all came about. And of course, the benefit to the shareholder is that we were able to deploy more machinery than we had anticipated.

Jocelyn Petersen ***Ansell Limited - VP of Global FP&A, Treasury and IR***

Next on the line, we have Sean Laaman with Morgan Stanley.

Sean M. Laaman ***Morgan Stanley, Research Division - Australian Healthcare Analyst***

Wondering if there's been any impact you've noticed from the macro environment on the M&A environment. And is there anything you can give us in terms of multiples or opportunities that you're seeing on the market to that end?

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

Not really. And I think the reason is private equity. There's just too much cash sitting, waiting to be deployed. And for that reason, we do expect that the recent level of pricing in the market is going to stay roughly unchanged. It doesn't change our view here and we will only bite, so to speak, when we see good value, and we will not allow ourselves to be sort of brought into a super competitive bid situation and pay more than we think it's worth. And for that reason, we're going to lose 60% of all competitive bid situations. And we're actually quite happy with that.

Sean M. Laaman ***Morgan Stanley, Research Division - Australian Healthcare Analyst***

And one more quick one, if you could give us some more granularity on fibers and yarns as a cost and what to expect, that would be really helpful.

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

Yes. So fibers and yarns has increased in size as a percentage of total raw materials and through a number of acquisitions. And obviously, the good growth we've had on HyFlex and the acquisitions of body protection businesses and so forth. We do see within that grouping, a lot of different fibers and yarns. It's everything from steel fibers to nylon to HBPE cotton. I mean, there are literally hundreds of different raw materials or fibers that flow into this one. And so there will be some exposure from time to time. You will see a certain fiber go up 20% in price. But given that there are hundreds of different ones, rarely should you expect that to show up in our results report saying that nylon went up and that's why this happened. So it's actually a good thing for Ansell that we're now less dependent on specific raw material categories than we used to be as an organization. And we do expect that the fiber and yarn is going to continue to evolve. Also hidden in this number is the significant cost reduction generated by Ansell, shifting from sourcing yarn from Dyneema or Depaul, to instead sourcing individual fiber strands and making our own yarn. So that takes a lot of costs out. So you have both things happening, an increase in the quantities, the tonnage of fibers and yarns and the offsetting cost efficiencies that we generate by doing more ourselves or de facto backwards integrating.

Jocelyn Petersen ***Ansell Limited - VP of Global FP&A, Treasury and IR***

Next on the docket, we have David Bailey with Macquarie.

David Bailey ***Macquarie Research - Research Analyst***

Just wanted to dig in on the organic growth rate assumptions heading into FY '20. I mean, you talked about the China distributor behavior, Russia turning around a bit of price coming through. But I wonder if I could just drill in a bit more for what you're trying to do on the industrial side to drive organic revenue growth outside of those initiatives.

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

While we're doing what we have always done, so to speak, we're launching a number of new products. We are working with key distributors and writing partnership agreements with more of them essentially closer agreements. You recall our discussions about Grainger, how important that was 3 years ago once we entered into that partnership. Since then, we have expanded that to about 80 distributors around the world with various degrees of tightness to the partnership agreements. But essentially, many of them and they are generally working quite well, we've seen some very nice developments with Fastenal in the U.S., for example. We've seen some nice developments with a variety of partners in Europe, whether it's (inaudible) or Ansell in Sweden or (inaudible) in France or a whole host of smaller distribution partners in Germany as an example. So generally, we're quite pleased with how these are going and that really is a key part of securing more than our fair share as part of these partnerships and that's one way of driving organic growth. And if you complement that with the mix management and launching new products, then you have the key recipes or key components of the recipe to drive growth. And then, as I said before, just not expecting or seeing any of those temporary onetime effects that we saw last year, repeating what we'll have a meaningful benefit as well to our ability to deliver the organic growth that we're seeking.

David Bailey ***Macquarie Research - Research Analyst***

Okay. Just one follow-up then. If we're looking at the second half '19 number of sort of minus 1% growth at the revenue line, just interested in how our order book in the fourth quarter, I suppose, are going from Q3 to Q4. Just trying to get a sense as to the exit rate year '20 for the industrial JV here.

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

There are 2 effects, I'll let Zubair weigh in on some of this as well. But -- so first of all, we had in the fourth quarter, a really tough comparable because the fourth quarter '18 was very strong. So even to match that and have 0% growth would have been a solid outcome in terms of volumes shipped and so forth. And the second one was what I said before, and that is many of our distribution partners saw the sales out weakening and reacted quickly and with a lot of force to balance our inventories and so forth. And that had a bit of an impact and a lot of the impact came in the fourth quarter. So that's really why we ended up with a negative number. So sort of a combination of circumstances if you will. It doesn't mean that we think this is going to continue and there are lots of reasons for that. First of all, we have an easier comparable in the first quarter '20 sort of quarter-on-quarter, if you will, or year-on-year. And secondly, we have eliminated many of the onetime effects. And third, we continue to drive significant initiatives in the marketplace. So those are the reasons to believe.

David Bailey ***Macquarie Research - Research Analyst***

Okay. Sorry, one last 1 one for me. Just on your FY '19 industrial GBU revenue, how much is your the automotive sector account for in terms of either revenue or proportion of total.

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

Well, automotive is the biggest vertical that we have and there's a little bit of a definition question here. What do you include in automotive, you include all of the sub assemblies and components and battery manufacturers and (inaudible) and whatnot. But if you have a broad definition of automotive, it's probably 10%, 12%, 13% something like that of sales. So it's a meaningful chunk of business that is linked to automotive. And obviously, that is also now changing quite rapidly as more and more automotive business is shifting to hybrid or electric. So it's going to change the need for protection and what we're expecting to see as slightly less complex assembly processes. Potentially leading to a reduced number of gloves. But on the other hand, really dangerous, really difficult assembly processes or you have the potential of getting electrocuted, so that requires then far more sophisticated gloves that will cost 2, 3 or 4x what they're paying today. So we have a lot of confidence that we will navigate through with the automotive industry and the changing protection needs that they're going to have. And in the end, it's going to be beneficial to Ansell because it's more complex, more difficult, requiring more R&D, and that is what we're good at.

Jocelyn Petersen ***Ansell Limited - VP of Global FP&A, Treasury and IR***

Next on the docket, we have John Deakin-Bell with Citibank.

John Deakin-Bell ***Citigroup Inc, Research Division - Director & Head of Healthcare in Australia and New Zealand***

Just wanted to get to elaborate a little bit more on the healthcare side? You grew the surgeons business quite a lot. It looks like you're taking market share. Can you just give us a sense of how repeatable do you think that is over the next 12 months?

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

Yes, we're taking share. And we've seen that in multiple geographies we've been as an example, very pleased with the U.S. operation and the U.S. team. They've been very dynamic about shaping the team and the plan of attack slightly differently than we had it laid out in the past, and that's been quite effective. So we are picking up a lot of business and taking share. We've also seen some very nice developments in places all the way from Australia to Korea, Japan. Russia has come back very, very strongly with tremendous growth. We're seeing some nice developments in Middle East and North Africa. So it's fairly broad-based. And we do expect it to continue. We obviously are going to have to ensure we have enough capacity to sustain all of this share growth, and we have recently signed off on some significant further investments. And we're increasing output from our plants to respond to this. And there's also some interesting turbulence in the surgical marketplace, that is putting a lot of pressure on a number of our competitors who are struggling mightily, and that, of course, is an opportunity for us to move our position forward a bit.

Jocelyn Petersen ***Ansell Limited - VP of Global FP&A, Treasury and IR***

Next on the docket, we have migration Gretel Janu from Crédit Suisse.

Gretel Janu ***Crédit Suisse AG, Research Division - Research Analyst***

So just firstly, just on the raw material costs, would you be able to quantify how much of a headwind did have in FY '19? And then if the current prices do remain, what benefit do you expect in FY '20?

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

Yes. So the headwinds, as Neil would have called out in H1 was around about $10 million in H1. We then said clearly that's dissipated in H2. But with the raw material mix, you can't bake in all of the dissipation. So effectively, in F '19, it kind of washed itself through the whole of the raw material composition. And coming into F '20, we would say, look, it depends, right? The NBR side is as you know, it's made up of 2 monomers. And the beauty of the inside has got its own dynamics, has the other monomer on the acrylonitrile. And we're watching those closely. So long story, show on that depending on those monomers and where the dynamics of those economics are, we will bake in some upside from NBR, where it's not going to be more than $3 million to $4 million on the EBIT side. It's all subject to where spot prices are heading, and they've gone north to where we wanted them to be in June. So we're monitoring that closely.

Gretel Janu ***Crédit Suisse AG, Research Division - Research Analyst***

Okay. And then just on the M&A pipeline, can you just confirm what areas you're looking in terms of to add on some bolt ons?

Magnus R. Nicolin ***Ansell Limited - MD, CEO & Executive Director***

I'm going to answer it the same way as I always do, I think and that is we're looking at all businesses. We particularly like the Life Science business based on its growth characteristics, but there aren't too many assets for sale. We see opportunities in body protection. We see opportunities in chemical. And there are always going to be opportunities in the mechanical portfolio. As you know, the Ringers acquisition was quite unique because it essentially allowed us to shore up a segment of the mechanical market where we were not global #1. The only segment where we're not global #1 and now we are through the addition of Ringers. So those are going to be the opportunities where we look to find specific assets and assets or companies that will bring specific capabilities to Ansell much like we saw with Rangers. And the capabilities we like so much with Ringers is good exposure to oil and gas where we were relatively weak. A little bit better on mining where we were relatively weak, a design philosophy that was, frankly, better than Ansel. So we expect to learn from some of their thoughts and philosophies on design. Because in the end it's a human wearing these products and humans like to look good. So we can do a lot better when it comes to incorporating some of those design elements to all of Ansell products. So that really is my answer. It's going to be across a wide portfolio of subsegments. And we will apply our usual stringency when it comes to analysis and return calculations and so forth. But and it forces us to look at a lot of opportunities and then back out of most of them. And it's a lot of work, but it's necessary work to find the golden nugget.

Jocelyn Petersen ***Ansell Limited - VP of Global FP&A, Treasury and IR***

Well on that note then, thank you, Gretel.

This is Jocelyn Petersen. I'm going to close out the earnings call. Thank you very much for your participation, interest and continued support of Ansell. Thank you.

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