



MOVERS
& SHAKERS



FROST & SULLIVAN

A CONVERSATION WITH MAGNUS NICOLIN:

Ansell, Iselin, N.J.

November 2016



Movers & Shakers Interview with Magnus Nicolin, Managing Director and Chief Executive Officer, Ansell

Interviewed by Sanjiv Bhaskar, at Iselin, NJ, Office on September 23, 2016

Introduction

Managing Director and Chief Executive Officer BA, MBA Wharton

Magnus is Managing Director and Chief Executive Officer at Ansell since March 2010.

Prior to joining Ansell, Mr Nicolin, a Swedish citizen spent 3 years with Newell Rubbermaid, Inc., most recently as President, Europe, Middle East, Africa and Asia Pacific. Prior to that he spent seven years with Esselte Business Systems, Inc. where in 2002 he led the leveraged buy-out of Esselte from the Stockholm and London Stock Exchanges. Following the buy-out he became the Chief Executive Officer of Esselte.

Mr. Nicolin has also held senior management positions with Bayer AG, Pitney Bowes and McKinsey & Company.

Mr. Nicolin holds an MBA from the Wharton School of the University of Pennsylvania and a BA from the Stockholm School of Economics.

Sanjiv Bhaskar (SB): How do you define leadership?

Magnus Nicolin (MN): My definition of leadership is:

- Providing a compelling vision and direction to the organization and the team.
- Then supporting the team in achieving that vision.

To be able to support them, you have to understand their dreams and aspirations and link these with the Company's aspiration; only then will you be able to motivate people completely. A motivated team-member is dramatically more effective and efficient.

SB: Since taking over as CEO in 2010, the Company has seen a better growth trajectory involving a number of acquisitions and diversifications. What challenges have you faced in this effort?

MN: M&As were an integral part of the strategy to lead the consolidation of the industry and complemented the organic growth strategies that we put in place while at the same time focussing on Innovation, brand-building, emerging market growth and vertical/channel development. The Board wanted me to go on the offensive. The focus in driving the Company long term through a very aggressive plan has always been with the full support of the Board.

We have achieved compound top-line growth of 7% and bottom-line growth of 12%. So we have seen some very good development and evolution of the Company, and we have also seen our EBIT margin rise from 11% to 15%. This gives us more options, since it also creates strong cash flow, and this has been a key driver of our ability to invest for the future.

The challenges with acquisitions are also that the more you acquire volume, the more cleanup work you have because if you don't eliminate and integrate systems and manage overlapping product lines, eventually you are going to end up with a mess. We have tried to balance the speed of our organic activities and our M&A activities; at some point you slow down a year, absorb everything properly so that you can move ahead again.

We have had a pretty exciting plan and vision for the Company, but we have also worked hard for it. It's probably the biggest worry that I deal with - that people work very hard all the time, they don't slow down or shut off, and this is not sustainable long term. So you have to tell people to take a break.

SB: Have you been able to meet the goals that you have set with these acquisitions?

MN: The acquisition program has been really successful, and has been designed to yield a ROIC that exceeds weighted average cost of capital within three years. It's a relatively tough objective, compared to other acquisitive companies; you will see most of them having an objective of five years. This means we have to be creative in finding significant synergies to allow us to deliver such returns. We have made 10 acquisitions in the last five years and our returns are indeed well ahead of the weighted average cost of capital after three years. It doesn't mean that every single one is, but the group as a whole is. If you look at the 10 acquisitions, seven out of the 10 I would categorize as successes, two as promising but needing improvement, and one as a failure.

We also give equal opportunity to the acquired team versus long-term Ansell staff. It's a very strict policy at Ansell that the best person suited for the job will get the job. This makes it easier for us to acquire family-owned businesses and of course retain talent that comes with acquired companies.

SB: How do you integrate cultures and systems of the acquired companies?

MN: Well, you have to follow certain principles on what the culture is, and some companies have a good culture that you don't want to lose. So you have to be extra careful on superimposing Ansell values on anything and everything. We try to do that in an equitable way, but even if you try to balance it, some small acquired companies are still going to be shocked, since we are a bigger and global company. A local company catering to three or four countries suddenly needs to fit into a system that has been designed for 50 or 60 countries, which is pretty challenging. With a little bit of humility you can capture the best culture of the acquired company and use that to improve the Ansell culture.

SB: Have your priorities changed as a result of these efforts?

MN: They have changed a little. We are not in the business of selling gloves; we are in the business of selling solutions for injury avoidance, we are a safety company, and that has been a conscious shift. And it goes into how we use our Ansell Guardian® tool, which is essentially an audit program. We will use this to map out glove use in a plant for every worker, compare this against our proprietary database and make recommendations on what should be used in order to improve productivity and reduce costs by minimizing incidents and accidents. This philosophy has been internalized, and every single salesperson understands and practices this. This is an important change.

We have also changed to take more risks—the Company was very risk averse. The Company historically was not willing to invest, and we tried very hard to change that by experimenting and taking risks, and sometimes we even failed. (I often ask team members around the world if they've had any failures in the last couple of months. If they say no, I say that's not good. It means that you are not stretching far enough.) Since we are a global company with a balanced portfolio, we are internally hedged, meaning we are relatively safe by design. That means we should be able to take a few risks on individual programs.

SB: What major challenges do you see for the PPE industry and Ansell in the future?

MN: A big challenge is the growth. Growth is not going to be spectacular since the economy is growing by 1-2%, and many key industries are therefore likely to grow in that range. So, in order to grow, we have to gain share, which we have been doing over the last five years, and we expect to continue this. We are going to make acquisitions from time to time, and have a very close rapport with our distribution partners like Grainger, MSC, ARCO, RG, Vostok, etc. We have been entering partnership agreements with these key distributors, where we will also help them grow their safety business faster by dedicating some of our resources for them. And these resources are money, people and, in some cases, customized product offerings. This has been really successful, and we expect to offer these solutions to many other distribution partners as well.

SB: Do you envision any major impact of Brexit? If so, how is Ansell planning to address the possible fallout?

MN: We are preparing, as any other company would. I don't see a very big impact from this on our business. I am more worried about the upcoming elections in France and Germany, the political stalemate in Spain. Such influences have a more fundamental and negative impact on the European economy than Brexit. Brexit will slow down decision making in Europe; I am not sure if that is going to change much with respect to the fundamentals. UK is a strong country, and it will be a little bit more independent now. And we don't produce anything in the UK, but we have a great team there, and a number of manufacturers have been making some price adjustments since the pound declined 10-15%. This is the short-term effect. So, if anything, manufacturing in the UK should be more competitive and export driven, since the pound is cheaper; so this will balance some of the uncertainty.

SB: Does technology play an important role in the global hand protection market? How does Ansell leverage technology in this fragmented and price-sensitive market?

MN: We have doubled our spending in R&D, and all our centers are in emerging regions, which means that they are cost effective. We have essentially 10 technology platforms which we invest in. We have focus on sweat management, chemical permeation, grip, and so on. In each platform we have five to 10 patents. We are surrounding ourselves with better technology, because we want our customers to understand that Ansell always is a little better in terms of products, protective and productivity properties and price-performance ratios.

SB: What role will digitization play in the PPE market?

MN: First of all, digitization links sales and distribution. How you link end users and distribution customers into your database so that you can manage order placing and tracking and tracing products.

When it comes to sales, we are seeing more and more of our sales through a variety of Web engines, whether it is a distributor setting up e-commerce platforms, or in Amazon, for example, to reach small customers. We have seen our e-commerce sales in China go up to 30% from nothing in a few years. So it's impacting at different speeds in different areas and reshaping the company fundamentally. We are also standardizing our product descriptions, so that they can be fed into all different Web engines in a standardized way with automatic updates and such things.

SB: How will the Ansell Guardian platform help in this effort?

MN: We have been training and equipping our people to make use of technological tools to automate analytics when they do customer audits and to collect data using their iPads. This then allows very effective use of Ansell Guardian to create recommendations of safety improvements for customer presentations. We are also seeing Ansell Guardian incorporate various product developments. For example, vending machines went from almost nothing to being a big part of sales. Ansell has embraced it pretty aggressively and we are now the leader in that space. We now have more product available than any of our competitors. It becomes a very effective tool to ensure compliance and to make sure that the end user is using the

right product at the right time and right quantity – this is all integrated into our Ansell Guardian program as well.

SB: What are competitive factors that differentiate your products and help Ansell stay ahead?

MN: For Ansell, four drivers of growth are:

1. Innovation

2. Branding: We have the most well-known brands in the world when it comes to PPE. We need to sustain them constantly. We have to merge smaller acquired brands into them, so that they get bigger and bigger.

3. Development in emerging markets: Jobs continue to move to emerging markets, and we have been heavily investing in these regions. We have doubled or tripled our sales forces in China, India, and Brazil to name a few. We will continue to over invest in these regions.

4. Verticals: We need products that can win in a particular industry. For that we have been offering products with superior performance customized to the needs of that industry. We have specialists in each of the 12 top industry verticals to support customers and distributor sales teams effectively.

SB: Is Ansell focusing on niche segments in the markets?

MN: Yes, we focus on some of them, not all. But we constantly evaluate options, areas where we should/should not invest. We have probably added five or six platforms to our portfolio. For example, the RIGS - Electrical Power line protection has been an addition. On the medical side, we have added surgical safety products in addition to our surgical gloves. So, we do pick up segments with incremental capabilities; some come with acquisitions, some come with constant proactive innovation and talking to end users.

SB: Do you foresee regional players competing and challenging established global players in the

future? What will be the competitive landscape in the next four to five years?

MN: I think the market is going to get highly consolidated, mainly with distributors playing a key role. Distributors also do not want to work with multiple suppliers because it creates a lot of inefficiencies in training, supply chain, logistics, catalogue management, etc., which will further consolidate the market. An optimal number would be two to three players. The smaller regional players will have no room, which will again consolidate the market further. The distribution landscape is also consolidating, with large players acquiring strong regional local players - the Grainger acquisition of Cromwell in the UK is a good example of this.

SB: What is the most attractive market from a geographic and end-user perspective?

MN: I don't think in those terms. The global market is attractive by itself and is very dynamic in terms of attractiveness. For a company like Ansell, we need to focus more in terms of verticals and segments. The more complicated and hazardous the end-user environment is, the more attractive for us.

SB: How is customer feedback integrated into innovation and R&D?

MN: We get it from the sales force, our website, and our marketing teams. Those are the three main sources of data, which are processed and turned into business development initiatives and so forth.

SB: How does your management team track your growth strategy and the company's growth strategy?

MN: Well, we obviously have core measures as an organization, and we do a deep dive every quarter to evaluate the progress. We also use QlikView® as tool to source and present relevant data for management decision making. On top of that, we travel and constantly meet with customers and team members in plants. We have 19 plants and I plan to get to each every year, which is hard to do.

But for certain, somebody in the management team will get to all of our plants; that's a key part of keeping your fingers on the business. And that in combination with meeting with sales forces, interacting with customers and suppliers pretty much tells us what's going on.

SB: What is unique about your leadership style? What skills do you believe a person should possess to be a successful CEO in a global PPE, publically traded company?

MN: I don't think there is a difference between PPE or any other industry. I think leadership is universal across industries. When it comes to a global company, it does require a leader to be present locally everywhere. You should be prepared to travel extensively.

And with respect to leadership style, it's about creating a compelling vision and making sure that everybody understands it. And then coupling that vision with the individual ambitions and striking a balance. I regularly interact with 150-200 managers and understand what they like and don't like. And I typically ask them what they would do if they were in my shoes. So, I get a lot of tidbits which are quite helpful.

SB: What steps are taken to share your vision with the entire company? How do you make sure that everybody understands it?

MN: There is a saying that to change a company takes two years per level. Most companies will have seven levels or so, which means if you want to change the culture of that company, it would take 14 years. First, I think we can short-circuit this, to jump levels and change how you communicate. Second, make levels less important, meaning make the company less hierarchical; and third, is just; communicate, communicate, and communicate. It's sort of frustrating to give the same message all the time, but unless you emphasize it three or four times, the message will not be absorbed consistently. The whole leadership team engages with managers across different regions to share our vision and strategy so that everybody is successful in the short and long terms. We also leverage all kinds of digital means of communication with global town hall and team meetings.

SB: Do people participate in the feedback?

MN: Naturally people will not be comfortable in saying something super negative in a public setting, but the way we allow that to happen is by collecting anonymous questions. When you do this, we collect a lot of important information on what our employees think about a specific action or decision we are taking. And we also get to know issues that weren't communicated well enough, and we can now address these.

SB: Where do you see Ansell in the next five to 10 years?

MN: We are going to continue to be very much focused on hand and body protection in the PPE space, and on surgical and alternate care safety on the medical side. We have announced that we are planning to explore options to our Sexual Wellness business. So, the focus will be on the remaining areas of activity. We are deep into hand and body protection; we are never going to be Honeywell, we don't want to be Honeywell, doing a little bit of everything. We want to be experts and specialize on what we do, in that sense we will stay true to that.

SB: How do you want to be remembered as a CEO? What long-term impact do you expect to leave?

MN: I would like to believe that as the Company grew and got stronger, we become known for leadership in our space. We stayed focused; we added a few pieces and took away a few pieces, but stayed very focused and skillful. I also believe that success here looks like a company that the team wants to work for no matter what. The best metric of this is that our team stays motivated and excited to the point that even if offered other job opportunities at higher pay, they will still view Ansell as the place to be because we offer more opportunities for personal growth and because we have more fun.

SILICON VALLEY

3211 Scott Blvd
Santa Clara, CA, 95054
Tel 650.475.4500
Fax 650.475.1571

SAN ANTONIO

7550 West Interstate 10,
Suite 400,
San Antonio, TX 78229
Tel 210.348.1000
Fax 210.348.1003

LONDON

Floor 3 - Building 5,
Chiswick Business Park,
566 Chiswick High Road,
London W4 5YF
Tel +44 (0)20 8996 8500
Fax +44 (0)20 8994 1389

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Frost & Sullivan
3211 Scott Blvd
Santa Clara, CA 95054