Event Transcript

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Start of Transcript

Graham Chipchase: Right, morning, everybody. Thanks for joining us for our fiscal '18 - 2018 results. I'm going to start off just with a few comments on the results before Nessa goes into the numbers. So, key points here are: very strong revenue growth and dividends fully funded by free cash flow. So, if you recall one of our targets is to grow revenue in mid-single digits, so I think it's a really good result that we got to 6% this year. Driven really by volume momentum in nearly all our major markets, so Europe, North America, Latin America and IFCO with good pricing in the US, emerging markets and IFCO North America. We'll talk a bit more about that later on.

Underlying profit - again, clearly you know that we would rather have the underlying profit grow faster than the top line, but we've pointed out that that is through the cycle. We've talked about the unprecedented increases in cost inflation throughout the year, and that is what's made at the end of the day our profit grow in line with last year, pretty much. So, it's pretty flat. What we've seen though within that and Nessa will talk about this in more detail, is very good profit growth in our European pallets business and IFCO but offset by the accelerating inflation.

Now, I think one of the good things, and we'll talk about this a lot more, is around our pricing initiatives, and again I know there was some concern that we wouldn't be able to get price increases through and activate some of the indexation. We've done a good job on that this year as well. Some other cost challenges which we have talked about: the capacity constraints in the US, and we've also got a transition from stringer to block pallets in Canada - and again Nessa will talk a bit more about that - and some increased costs related to the higher growth in Latin America.

Also, just to remind you that there is that 2-point cycling issue with the loss of the RPC contracts in Australia and automotive contract losses which we did flag to the market back in 2016. Again, another one of our financial targets was keeping the ROCI in the mid-teens, so at 16.1% it remains strong. We had a bit of a reduction due to the contract losses in Australia and also the lower margins in the Americas. Significant improvement in cash generation, I think it's probably slightly better than we thought and ahead of our schedule.

We've increased the free cash flow post-dividends by over $300 million, which I think is a great result, and it's been through both a combination of the EBITDA growth, but also very disciplined approach to work in capital management and we've got some better asset compensations. Again, Nessa will talk more about that later on. We've successfully completed some portfolio actions, so we've sold HFG as you know and the recycle business, and we've used that cash to fund some of the longer-term projects to improve our cost position. So, the automation project in the US and our lumber project, which again Nessa will talk about more.

So, I think it makes that cash performance even more impressive, we've generated cash even though we're still investing for the longer-term success of the company. Then, you will note this morning that we've announced our intention to de-merge and to separate IFCO from Brambles. Again, I'll talk about that more later on. Finally, with dividends, we've kept it flat and again, that's in line with our progressive dividend policy.

So, we set out last year - this time last year - some of the key strategic objectives and priorities for the Company, and I just wanted to give a few highlights about what we've done in the last year. So, addressing US pallets performance, I think one of the good things is again, if you think - go back 18 months, there was a lot of concern about our ability to

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grow the top line in that business because it had dropped off. So, this year we've got back to what would have been historic levels of growth in the US business.

We've also seen clearly lots of cost inflation in the business, but I'm very pleased with the way that the team have gone out and got price increases, both the contractual ones, which we've talked about in terms of indexation and surcharges, but also they've got out and as prices have come up for negotiation, they've repriced contracts, largely to reflect the increased cost to serve.

Again, I think that's been a really great performance in that business and if you think about what we said at the investor day back in March, across the group we've managed to get about two thirds of the inflationary cost increases covered by these pricing actions and in the US, it's about half of the cost increases. So, that's exactly in line with what we thought we'd be able to do back in March.

The other thing we wanted to do is leverage our global scale, and again this has largely come about through a real focus on procurement and you'll see that coming through our lumber projects initiatives which again, Ness will touch on later on. The cash generation I've talked about already, so I won't go on about that more. Portfolio actions and checking that we're now using the cash from those actions to fund the longer-term initiatives for the business - again, I've talked about that.

I think the other important thing is to talk about how we're trying to grow the business. There are lots of areas of growth, particularly if you think about pallets. I know a lot of you think it's a slower growth business, and we'll talk more about why it's not, but we're doing quite a lot around developing markets like India and Russia. There are lots of opportunities in terms of new lanes with customers, so again, we're doing a lot of work on last mile solution, first mile solution. Our automotive business now is beginning to get some good new contract wins and we're looking to replace the volume we lost in Australia with RPC with new business. We'll talk a little bit more about that later.

Finally, Kegstar - we don't talk much about that business. It's a great little business and we're expanding that globally and we're doing a lot more development around what we're doing with digital to try and increase our offerings with customers and on products. So, with that, I will hand over to Nessa on the financials and I'll come back and talk a bit more about the IFCO transaction.

Nessa O'Sullivan: Great, thanks, Graham. Good morning, everyone. Starting on slide 6 to give you an overview and a summary of our FY18 results. Sales revenue growth of 6% represented strong global top line growth. Despite significant inflation headwinds across our major markets and a 2-point reduction in ULP growth due to contract losses announced in 2016, underlying profit of $996.7 million was in line with the prior year. Operating profit, however, increased 22% and reflects a reduction of $175 million in pre-tax significant item expense, due both to the cycling of the prior year $120 million non-cash impairment charge against our HFG joint venture investment, and also due to other reductions of $55 million, largely due to lower project costs.

Tax expense included a $128 million one-off non-cash credit to income tax expense, which we announced and recognised in the first half, relating to changes in US tax regulations. The reduction in the US corporate tax rate from 1 January also impacted the FY18 underlying effective tax rate, which reduced to 26.5%. We expect our effective tax rate, however, to revert to between 28% and 29% for FY19 with the impact of other US tax changes from 1 July largely offsetting these benefits. Underlying EPS increased 3%, reflecting the lower tax rate.

Turning to slide 7 and looking at Group sales revenue in more detail. Revenue growth in FY18 was driven by volume and price across our CHEP and IFCO segments, with price realisation in response to inflationary pressures weighted to the second half of the year. Turning to the individual components of growth, which are outlined in the chart on the left-hand side, sales revenue increased $290 million, or 6% at constant currency, with CHEP contributing $217 million to revenue growth and IFCO contributing $73 million.

The growth in CHEP revenue included $210 million driven by net new business wins and like-for-like volume growth from new and existing customers in both developed and emerging markets. In addition to volume growth, CHEP also realised price mix benefits of $42 million, which includes contractual price increases in US pallets as well as price growth in emerging markets. It should be noted that in addition to the price realised on the revenue line, other effective pricing realised largely related to surcharges in the US pallets business are netted off against the relevant cost lines in the P&L.

Year-on-year, the impact of the Australian contract losses announced in 2016 was $35 million. IFCO's solid contribution to Group sales growth was driven by strong volume growth and pricing actions in North America.

Turning to slide 8, Group underlying profit was in line with prior year. Sales contribution to earnings growth of $159 million was offset by both higher costs and the $22 million loss of income from the 2016 announced Australian contract losses, which reduced FY18 underlying profit growth by 2 points. Depreciation costs increased by $29 million, reflecting investment to support volume growth, new market development and increased automation across the group. Net plant and transport costs combined increased $85 million during the year. This increase includes the impact of accelerating transport, lumber and inflation across our major markets net of the related transport and lumber surcharges, which were primarily realised in the second half. In the US, increased transport miles and handling costs were driven by changing customer and retailer behaviour.

Costs were also impacted by plant and network inefficiencies associated with capacity challenges. The US business also increased spend on pallet quality, increasing plant costs during the year. In Canada, the increased rate of pool conversion from stringer to block pallets resulted in higher plant and transport costs, as well as increased CapEx spend.

Other costs increased $27 million, reflecting higher overhead costs and an increase in the irrecoverable pooling equipment provision driven by the strong volume growth, the Canada pool transition and increased cycle times in Latin America. The increase was partly offset by higher asset compensations as asset accountability has become a major focus across our businesses.

Slide 9 provides a high-level overview of inflation and price recovery experience in FY18. During the year, accelerating rates of transport, lumber and labour inflation resulted in $52 million of additional costs. Through a combination of surcharges in the US business, contractual indexation in Europe and other contract price increases, which were primarily realised in the second half, we were able to recover approximately two thirds of the cost inflation in FY18.

The exit rates of inflation we've seen at the end of the financial year remain well above levels experienced over the last three years, and we expect them to remain elevated in FY19. FY19 will include the rollover benefit, however, of the half 2 pricing and surcharges realised in FY18. It's important to note that there is a time lag between costs increasing and our ability to recover these costs through pricing and surcharges, in part due to the surcharge mechanisms and also due to the timing of contract renewals, with an average contract length of three years.

Turning to a more detailed review of the segment results: CHEP America sales revenue grew 5%, which reflected improved volume momentum and price realisation in US pallets, another strong year of volume growth in Latin America and solid volume and price contributions in Canada. Margins for the CHEP Americas region declined 3.3 percentage points, reflecting input cost inflation and other cost challenges across the region. At a high level, 2.4 points of the margin decline was due to the CHEP USA business and included 0.4-point impact relating to increased investment in US pallet pool quality.

CHEP Canada accounted for 0.6 points of the margin decline, as an acceleration in the rate of customer conversions from stringer to block pallets resulted in higher costs. Finally, CHEP Latin America accounted for 0.3 points of the decline as pricing was unable to recover the impact of cost increases and longer cycle times in this high-growth

developing business. In the second half of FY18, we commenced implementing a number of initiatives in the US business to offset cost pressures, which will deliver benefits over the short, medium and longer term. These initiatives include pricing through surcharges, repricing at contract renewals and efficiency initiatives which we'll address later in the presentation.

Slide 11 provides further details on underlying profit for the region. Increased sales contribution to the underlying profit of $52 million was offset by inflation and other cost pressures in the US, Canadian and Latin American pallets businesses. Depreciation increased by $8 million during the year, reflecting growth-related increases in the pallet pool and increased investment in US automation. Plant cost increases of $23 million reflected higher repair, handling and quality investment in US pallets, as well as increased plant costs associated with the migration to block pallets in Canada. Net transport cost increases of $47 million included $25 million of additional costs associated with transport inflation. The balance of the increase reflected higher transport miles due to capacity constraints, changing retailer and customer behaviour in US pallets and the migration to block pallets in Canada.

Other cost increases of $23 million reflected higher IPEP balances in line with pool growth, higher unit values in Canada due to the transition to block pallets and higher costs associated with the longer cycle times in Latin America. Taking a closer look at the US pallets performance and starting with revenue growth on slide 12: in FY18, we took a disciplined approach to growth and renewals to ensure that we struck the right balance between scale, competitive position, network efficiencies and returns.

As you'll note from the chart on the left-hand side, both volume and price growth momentum improved in FY18 relative to FY17, with effective price particularly strong in the second half as we responded to increased costs. Price growth of 1% reflected contractual rate increases, primarily realised in the second half. Effective price, which includes the labour and lumber surcharges that are recognised as an offset to costs increased $17 million or 2% in the second half of FY18 and they partly offset inflationary cost increases of $36 million. Volume growth included like-for-like volume growth with existing customers of 1%, net new business volume growth of 2% from both rollover wins from the prior year and customer wins in FY18.

Turning to slide 13, at our Investor Day in March this year, we outlined our plan to deliver 2 to 3 percentage point margin improvement in the US pallets business progressively over the medium term. The table on the slide sets out the key initiatives we're implementing, the progress we've made in FY18 and the anticipated phasing of each initiative's contribution to margin improvement in the medium term.

Starting with supply chain cost-out initiatives: in FY18, we continued to assess and optimised our network and transport to drive further efficiencies across our operations. We achieved efficiencies in FY18 which reduced overall cost increases and as indicated by the deep green circles in the table, we expect ongoing optimisation of our network and transport to deliver benefits going forward.

Turning to prices and surcharges: in FY18, we levied transport and lumber surcharges during the second half of the year in response to accelerated inflation. In addition, our teams commenced renegotiating contract terms and pricing reflecting the increased cost to serve. While we started to see benefits from these initiatives in FY18, there are some constraints on the speed at which we can increase pricing, given that only one third of the contracts come up for renewal every year. This is also why we expect the margin benefit of contractual pricing to be realised progressively over three years.

In terms of procurement initiatives, they include the lumber strategy in the US to reduce pallet unit costs and repair costs, full benefits of which are expected to be realised by FY21. The US automation program, while we'll cover in more detail on the next slide, is underway. The efficiency benefits will progressively be delivered from FY19 and be fully realised by FY22, by which time all automated service centres would have been in operation for at least 12 months.

Looking at the US automation program in more detail, we'll be investing approximately $160 million over the next three years to increase automation levels in the US from 20% today to 85%. The project will automate over 50 plants between FY19 and FY21 and it is expected to have a four-year payback. This is consistent with other automation projects undertaken in both Europe and previously in the US. The funding for this project is from asset actions completed in FY18, including the sale of the recycle business in the US and the exit of the HFG joint venture.

Post the announcement of the program in March this year, the plan was launched and the team has been put in place. Two automation rollouts were initiated in June 2018 and for the full year FY19, 16 sites have ben identified for automation and five rollouts are scheduled for the first quarter.

Moving to slide 15 and looking at CHEP EMEA. The CHEP EMEA segment delivered another year of impressive results, with FY18 revenue growth of 8%, which includes indexation, and underlying profit growth of 9%. The region delivered margin expansion despite accelerating rates of transport, lumber and labour inflation. Volume growth was 6% in the Europe pallets business and largely driven by new contract wins in southern, central and eastern Europe. Price was flat as contribution from contractual indexation offset the impact of strategic pricing initiatives to support growth and strengthen our network density in the region.

The RPC & Containers business growth of 18% was driven by Kegstar expansion in all regions and large contract wins in European automotive business. Underlying profit growth of 9% exceeded sales revenue growth and margins increased by 0.3 percentage points as a strong sales contribution to profit and supply chain efficiencies offset inflationary cost pressures.

ROCI continued to be strong at over 24%, despite increased investment to support growth in new pallet markets and the European automotive business. Looking to FY19, we expect volume momentum to continue as all businesses expand in new and existing markets. As previously noted, inflationary pressures are expected to continue to increase and we are increasing CapEx investment in the automotive business to support contract wins during FY18.

Turning to CHEP Asia-Pacific, the previously announced RPC and automotive contract losses collectively reduced revenue growth by 7 percentage points and resulted in a $22 million decrease in underlying profit. Pallets revenue growth, however, was a pleasing 4%, driven by the developed Australian and New Zealand businesses. Margins improved by 0.4 percentage points, driven by cost reductions, productivity gains and a $13 million increase in asset compensations.

In FY19, we expect the CHEP RPC business to return to growth, as we develop a number of new growth avenues to replace lost volumes, however we don't expect the same level of asset compensations to recur in FY19. The IFCO RPC segment continued to expand strongly in FY18. Sales revenue increased 8%, reflecting volume growth with retailers in Europe, price and product mix benefits in North America and volume expansion in Asia and South America. Underlying profit increased 10% and margins increased by 0.3 percentage points as sales contribution and efficiency gains were partly offset by higher depreciation and transport costs. ROCI improved 0.7 percentage points, reflecting margin expansion and improved leverage of the asset pool.

Turning to slide 18 and the corporate segmen, corporate costs and losses in the HFG joint venture were broadly in line with the prior year. We increased our investment in BXB Digital during the year as in addition to the $11.6 million expense recognised in the corporate segment, we also made a capital investment of $7.2 million in the development of a software logistics system used for transport collaboration and supply chain insights. Looking to FY19, we'll continue to increase our spend on innovation and BXB Digital by $5 million to $7 million. In light of the divestment of the HFG joint venture in April 2018 and the subsequent repayment of the HFG shareholder loan, the losses and associated interest income however will not recur.

Looking now to significant items for FY18: the pre-tax expense of $10.7 million was in line with the FY18 guidance of $10 million to $15 million. The FY18 decrease in pre-tax items of $175.4 million included the impact of cycling the $120 non-cash HFG JV impairment expense recognised in FY17. It also reflected a $55 million reduction in costs following a strategic review of significant item projects and the completion of other multi-year programs. The $1.4 million credit from changes to accounting estimates and methodology reflects the prior year impact of changes relating to pallet pool costs in Mexico and Canada and logistics credits in IFCO. Post-tax items included $127.9 million one-off non-cash benefit to tax expense, largely due to the reduction in the US federal tax rate from 35% to 21%, effective from 1 January 2018 as announced at the first half results.

Turning now to our cash flow performance for the year on slide 20, before the inclusion of the $150 million of HFG joint venture loan proceeds, operating cash flow fully funded dividends and CapEx for the first time since FY15. Increased EBITDA, strong working capital management and higher collections of compensations due to improved asset management more than offset cash CapEx increase in FY18. Surplus free cash flow of $52 million included $30 million of working capital timing benefits, which are expected to reverse in FY19 and higher asset compensations not expected to recur. Operating cash flow was further strengthened by the HFG loan proceeds of $150 million. In terms of FY19, we will target further asset efficiency and working capital improvements to help offset the reversal of the $30 million FY18 timing benefits and the cycling of the FY18 asset compensations.

We also expect an adverse timing impact on FY19 cash flow relating to the timing of Australian cash tax payments, which is expected to increase by approximately $40 million to $45 million in FY19 with an anticipated offset benefit in FY20. Cash outflows in FY19 will include increased automation investment, funded by the proceeds of the FY18 asset actions.

On slide 21, looking at cash generation initiatives, we have made progress in improving cash flow generation in FY18 with further opportunities for improvement as set out on slide 21. In FY18, EBITDA improvement, our focus on working capital, a reduction of significant item expenses and increased compensations delivered a material improvement in cash flow generation in FY18. Looking at capital expenditure in more detail and reading this in conjunction with appendix 6, total CapEx investment in FY18 was $1.2 billion, representing an increase of $132 million over prior year.

Non-pooling CapEx increased by $27 million, reflecting higher supply chain investment including automation investment across the group. Pooling CapEx increased by $105 million to support high-volume growth and new market entry, as well as increased investment in block pallets in Canada as the pool transitions from stringer pallets to block pallets. In addition to volume increases, spend also increased due to higher unit pallet costs driven by higher lumber costs. These increases were partly offset by cycle time efficiencies in the major markets.

Despite improvements in cycle times in major markets, we've seen extended cycle times in Latin America and some higher stocking in parts of Europe during the second half of '18 as some customers increased inventory levels in response to transportation capacity constraints and also to Brexit uncertainties. We have, however, seen some level of destocking since the end of the financial year by European beverage customers due to high demand in the hot summer and lower production due to CO_2 shortages in that market.

We're targeting further improvements in cycle time and asset efficiency through better customer asset accountability and by leveraging BXB Digital technology. Looking to FY19, we expect the overall CapEx to sales ratio to increase by about 0.5 a percentage point with increased investments in automation investment increasing the non-pooling CapEx to sales ratio, partly offset by a reduction in the pooling CapEx to sales ratio driven by asset efficiency.

Our balance sheet has remained strong. We've lowered net debt and improved the profile of our debt book and maintained our investment grade rating of BBB+ from Standard & Poor's and Baa1 from Moody's. Net debt was $2.3 billion at 30 June 2018, representing a decrease of $265 million over the prior year, reflecting surplus free cash flow

after dividends as well as cash inflows of $102 million from the divestment of CHEP Recycled and $150 million proceeds from the HFG shareholder loan repayment.

Supply chain investment of $160 million automation will be funded over the next two to three years from these cash inflows. During the year, we strengthened our funding profile with the €500 million EMTN note issued and completed in October 2017 with a coupon rate of 1.5%. These funds refinanced the EMTN which matured in April 2018 which had a coupon rate of 4.625%. The average term of committed facilities has now increased from 3.7 years to 4.5 years and our net debt to EBITDA ratio of 1.46 times is well below our policy of under 1.75 times and was driven by the strong operating cash flow and asset actions.

Before closing, I'd like to run through the impact of the new accounting standards. Our new standard for revenue recognition, AASB 15 comes into effect in FY19 and our new leasing standard AASB 16 comes into effect in FY20. Starting with the new revenue recognition standard. Under the new standard, issue fees previously recognised upfront will now be recognised over the estimated period between when assets are issued to customers and returned to Brambles. This will result in an increase in deferred revenue across the group.

For FY19 reporting, Brambles will restate the FY18 comparatives via equity to reflect the opening deferred revenue liability of approximately $530 million. The restatement of the FY18 prior year comparators will show both FY18 revenue and FY18 underlying profit $30 million lower than the reported results in FY18. As shown in the table, in FY19 the impact on the year-on-year revenue growth is expected to be minimal due to the restatement of the FY18 comparatives.

The impact on FY19 year-on-year underlying profit growth, however, is an estimated reduction of about 0.5 point of group FY19 earnings growth. There is no cash flow impact from the new standard. The recognition of the deferred revenue liability will increase ROCI by approximately 1 point, however in FY19 this will be offset by increased investments in US automation and procurement initiatives, new business and the pallet pool changeover in Canada.

In FY20, the new lease standard will result in increased lease capitalisation, which is expected to reduce group ROCI by a further percentage point. In summary, we've made good progress through our strategic initiatives in FY18. We significantly increased cash flow generation and started to see cycle time improvements in our major markets. Importantly, we continued to invest in the quality of our assets and capabilities as well as in key operation initiatives which will be integral to our success over the medium and longer term.

These initiatives include the accelerated automation program in the US and procurement initiatives. Our teams have also been focused on capturing the cost to serve in the current inflationary environment through various pricing initiatives in the major markets. While we're pleased with the progress, we remain focused on capturing further opportunities to improve asset efficiency and supporting growth in new and existing markets and channels. Looking at FY19, underlying profit will continue to reflect ongoing input cost inflation and other cost challenges.

We also expect the multi-year automation procurement and pricing initiatives to progressively deliver efficiencies and earnings benefits over the medium term. Thank you very much. I'll hand now over to Graham who will provide an overview of the separation of the IFCO announcement earlier today. Thank you.

Graham Chipchase: Thanks, Nessa. Right, so I'll talk a little bit about the announcement today to separate IFCO from Brambles. So, you heard and seen what we said - what will happen once we've done the separation is we'll end up with two world-class businesses. So, IFCO will be a fast-growing RPC pooling business, strong financial position and significant growth opportunities, and I'll talk about those more in a minute.

Then , Brambles post de-merger, which is clearly effectively the CHEP business, will remain as it is today, the world leader in platform pooling providers with a leading market position, stable growth and strong cash flow generation. Now what we're planning to do is to pursue the separation through a demerger, but of course, if we find a great sale

opportunity which is obviously optimising shareholder value, we'll look at that as well. Plan is that we'll get the transaction done before the end of the calendar year 2019.

So why are we separating the businesses now, what's the rationale? I think it's important to say, to start off with, that both of these businesses are great pooling businesses. They're leading brands in themselves, CHEP and IFCO - they've got great market positions and they've also both got attractive opportunities for future growth, and I'll talk a bit more about that in a minute. But they are operationally and commercially independent of each other. There's no synergies between them in terms of operations or customers, and they've actually got different investment needs. If you look at the financial profiles of the businesses going forward they are different.

So we feel at this point they would actually fare better under separate management and ownership, because then you'll get the focus on the specific needs of each business to be able to grow them better in the long term. And I think it will allow the full potential of both businesses to be achieved, and it will allow the management teams to focus on managing the costs and the complexity efficiently for the long term.

So having said that, the chart on the right-hand side demonstrates two important points; the CHEP business ex-IFCO actually accounts for 86% of the Brambles profit today. And the other thing, which I know a lot of people have been worried about is ex-IFCO does Brambles go ex-grow - well, clearly not. If you look at the growth profile, the CAGR on revenue ex-IFCO, you can see that it's still a very attractive 6%.

Here's what IFCO looks post-separation; I know a lot of you know the shape of IFCO, so I'm not going to go through all the points there, but it is going to be a market leader with, I think, unmatched scale and network, and I'll show a bit more about that in the next slide. Very strong growth profile - we all know that, we've seen that over the last few years but also there's plenty more opportunity, and I'll talk about that in a minute as well. We think an attractive investor value proposition; we've got very good EBITDA margins, positive cash flow generation, and good return on capital for incremental investment.

Finally, continued business improvements, so we've done quite a lot already on the North American business, there's obviously still a long way to go there, but there is scope for improvement, and we do think that the IFCO business can participate in the online retail and e-commerce opportunities.

So if we look at IFCO and thinking to the future and to the growth perspectives of the business, you can see there's, I think, significant pipeline of growth opportunities, so you can convert existing new verticals with existing retailers, there's quite a lot of new retail customers that can be converted. There are a lot of owner, or retail-owned pools still , particularly in Europe which can be acquired, and a lot of the retailers clearly are looking to do that as they try and realise cash and try and offload some of the costs to the supply chain. There's still new produce categories, particularly if you look in the US where they're very much into fruit and veg, and there's lots of opportunities in protein. And, because it's quite a fragmented business in the industry, there's opportunity for a consolidation through M&A, and potentially vertical integration back into injection moulding.

The slide on the left at the bottom there shows again two points, I think; one is in the markets that IFCO's in, it is the market leader, but the white boxes show that there's still quite a large addressable market, and that's obviously largely from the people who currently using corrugate who will switch to RPCs we think over time for reasons of sustainability and efficiency.

If we look at Brambles post separation; so I think a couple of points to make here; when I say that clearly it's the CHEP business which includes things like Kegstar and our automotive business and the old Pallecon business. But I think also very important to say that it means we're still keeping our ANZ and South African RPC businesses, the CHEP businesses as they were. The reason those don't go with the rest of the transaction, is they are completely integrated into the CHEP business, and so operationally and financially it makes no sense to split them out.

This business will remain a world leader, strong positions in all the markets it's in, unmatched scale and network - and as you know network advantage is a key, a strategic priority for us maintaining it. A strong pipeline of growth over the long term, and I'll talk a bit about that in a bit more in the next slide. A very attractive investor value proposition; so again very good top-line growth in mid-single digits, strong EBITDA margins, really good cash flow generation, and a really good ROCI.

We will look at the capital structure going forwards; we obviously intend to maintain a strong balance sheet and credit profile, but we'll look at that post separation and see what we want to do to support the future growth. We think there's an opportunity to have an absolute enhanced focus now on the operational efficiency, customer value, and innovation, which we've been talking about for the last year anyway. Clearly we want to leverage what we're doing with BXB Digital; we're looking very much about proven technologies, but improving them and rolling them out much more globally. We're looking at increasing levels of automation. We're looking at seeing if we can do more in material science, as well as improving our customer experiences, which is related partly to what we're doing with digital, but partly what we're doing in terms of making us an easier business to do business with, which I know a lot of people have concerns in the past, but we're making great strides on that already.

If you look at this slide, this is talking about the growth profile for Brambles ex-IFCO. So we really are quite confident about this top-line revenue growth profile, which again I think people have had concerns about that. You can see the CAGR there over the last four years - so very, very good top-line growth. And it's coming from sort of developed markets, you know there's still a lot of growth with existing customers, there's still some areas in what we would call developed markets, which actually still have quite high [white woods] businesses today, or it's managed with exchange pools.

So, for example in Europe, there's still quite a long way to go in Germany and Scandinavia. We're looking at emerging markets; you can see again that there's not much we've done in terms of volumes in Russia, India, China - those still are things that we feel there's opportunity over the longer term. Middle East as well - and Latin America. And there are new spaces in both developed and emerging markets which we think we can go for. So e-commerce; again we're doing some work with various of the online retailers. We think there's quite a lot we can do on new materials, and that could be plastic as well as hybrids, and formats; so again, a lot happening in the last-mile solution around half-pallets and quarter-pallets as well as looking at digitally-enabled business models, and again we're starting to do that with what we're doing in BXB Digital.

Chart on the bottom left there, I think just points out that some of the emerging markets are still quite small relative to our other developed markets. But also that where we are, we are very, very big and we've got very strong market shares.

So if you look at the Brambles' investor value proposition; I don't think it's changed a huge amount - it's all about delivering long-term value and attractive Shareholder returns. So our ambition to be the global leader in platform pooling solutions, number one market share in all of the major regions of operation, leading the industry in customer service, innovation and sustainability, creating new areas of value by solving customer and retailer challenges in the supply chain, using digital in many instances, and being an employer of choice with industry leading positions in zero harm, diversity and talent development.

I'll talk about that just briefly for a moment, because we don't talk about it very often. One of the things that we've had a great performance on this year, and actually this is aimed as much for the employees who are listening than anyone else. We've improved our safety statistics by nearly 30% in 2018, and if you think about all the other things that have been going on in the business, in terms of disruption, trying to cover all the inflation and costing, that's an absolute brilliant performance. And in terms of sustainability, our model which has been around for a while, the circular model

and share and reuse model; that is recognised by a lot investors but also by a lot of stakeholders as being world leading and world class, and I'm very, very proud of that and I know our employees are too.

What we want to deliver as a result of all this is sustainable growth and returns well in excess of the cost of capital. We're looking at mid-single digit revenue growth, underlying profit leveraged through the cycle, and I can't say that too frequently but you know what I mean now about that, with strong return on capital invested, and generating sufficient cash to fund growth, innovation and the shareholder distributions, and clearly we want to fund our dividends through the generation of free cash flow.

You'll remember last year in August we set out the five strategic priorities; I'm not going to go through all these in detail, but all I will say is that we're making great progress on those, they're really important to the business, and I think the focus we'll have now going forward to deliver on these is even greater now with the businesses being separated.

So just some concluding comments; first of all thank you for your patience, there's been quite a lot we had to get through today, but as you realise this is an important point in Brambles history, it's an important moment. So I think it's important to go through the reasons why we're doing what we're doing. But let's not forget the FY18 results. I'm very pleased with the top-line performance. Underlying profit in line with FY17, given all the cost inflations, is a reasonable performance - I think growing the EPS by 3% was good. A meaningful improvement in cash flow which is incredibly important. I think significant progress on the strategic priorities, very good progress in sustainability and safety, and our intention - our commitment to separating IFCO from Brambles. And I think it does position both businesses for a range of growth and value-creating opportunities, as well as allowing the Brambles Shareholders to benefit from future IFCO growth, either through direct shareholding or sale proceeds, depending on which path we follow.

So with that, we'd like to take some questions from the floor and then we'll go to questions on the phone or the web. So the first one from the floor; if you can wait for a microphone, just let us know who you are, that would be great. Thank you.

Anthony Moulder: (CLSA, Analyst) If I can start with Nessa and I guess these significant items in CHEP Americas; can you pull apart what they were from Canada and Mexico please?

Nessa O'Sullivan: Sure. In Canada, what we've been seeing is, in that market we have a pallet that's generally referred to as a stringer pallet and that pallet is a very heavy-duty pallet but only has two access points for forklift. In the US our pallet is a block pallet, and then it's four-way entry for forklifts, which makes it's a lot more efficient in warehouses, et cetera because you get access points on all sides. Historically, the Canada market has been a stringer pallet market; what we've been seeing, and particularly we saw some other competitors come in and basically promote the benefits of block pallets, and we had some major retailers in that market who saw the operational efficiencies that they were getting in block pallets in other markets. So there's been an increasing demand for those pallets in Canada.

What we - I suppose we've seen some transition, but we saw an escalation in that. And also in response to competitor offerings, we always want to make sure that we remain relevant and service our customers. So that had an impact, both on our earnings and also on our CapEx, as we had to put more block pallets in and we're retiring stringer pallets quicker.

In Latin America, what we're seeing is, as the market has been growing strongly - generally when you go into a market you can get a shape of cycle times, which means as you fill the pipeline that you get longer cycle times - particularly when you don't have density in a market, it tends to take you a bit longer to get the pallets back. What should happen as you grow bigger is you should reach tipping points because you put in new service centres, etc., and you get to a density and the pallets should come back to you quicker as you grow. What we're finding in Latin America is that the cycle time has stayed longer, so what we have to do is do two things.

One, address improving asset efficiency; so you know we came in and said we're focussing on asset efficiency, we set targets by each of the markets, worked out a theoretical flow, and we said to Latin America this is where you are, this where you should get to. When they weren't able to get to those numbers, we did further forensics. And what we are doing now is a whole range of activities to improve asset efficiencies, looking at pricing, et cetera, in that market, and we're trying to get the balance right of not putting in a load more capital without making sure we have really good asset controls in the market. So it's really just recognising there's some higher costs related to that.

Anthony Moulder: (CLSA, Analyst): So back on Canada, is that a write-down of those stringers; have you written all of those down?

Nessa O'Sullivan: It's largely - no, so largely we're trying - well we're trying to phase it out. So if I was to characterise how far we're along and how much further we have to go; I'd say by the end of next year we'd be about 75% - at the end of FY19, we'd be at 75% converted. And I still think there'll be a role for those heavy-duty pallets, because some of beverage, or the people who have really heavy goods, really like them.

So if you at the quantum of impact of this year expect the same amount next year. And we will have a little bit of that will be ongoing, because you have higher damage rates; when you have four points of entry to a pallet, it gets more knocked around by forklifts, so you tend to have higher damage rates. But the big step-change that we've had this year, expect that again next year, and then we should be in steady state as we go in 2020, would be my guesstimate now.

Anthony Moulder: (CLSA, Analyst) [And a similar kind of reduction in average invested capital; is that how we should think about that?

Nessa O'Sullivan: Well, at the moment we're going through a changeover, so we're actually putting in - so we have more stringer pallets on hand but we're having to put in more block pallets. So, as you run two pools, you just don't have the same efficiency. It will take us, I'd say, over two to three year period to get the efficiency of having two pools to their optimal level and managed that way.

Anthony Moulder: (CLSA, Analyst) And just, Graham, if I can on IFCO, I mean kind of disappointed to see the divestment of IFCO given the growth profile it has and the strength of market that you point out. Are there indications - are you suggesting that you haven't invested as much time as what you should have into the growth of IFCO, that hence it's better outside of the Group?

Graham Chipchase: No, not all, I think we spend a lot of time on IFCO, considering North America over the last two years. I think it's more about recognising that they're both great growth engines, so the IFCO business is a great growth engine, but the financial profile to grow the business is different to that that you need to grow the Brambles CHEP business. And maybe the right way then to achieve - both of those of those businesses achieving their maximum potential, is to have them separated, so either through the demerger or through a sale, so that there's, A, focus, and B, you can finance them appropriately to achieve the growth potential.

And to be blunt, if you think about it, the North American business is going to require longer - I don't think it's an unfixable problem, but it's going to take longer and a lot more cash than growing the Brambles business. So it's kind of being able to separate them out and unlocking value from both, because different people will see the value differently - and I think by separating them out, you can actually show the value of both, and I think that's a not uncommon way of the reason behind a demerge, and I think that's actually the case in this instance as well.

Anthony Moulder: (CLSA, Analyst) And lastly, given the longer-term growth profile of IFCO, obviously the push into online, which it was perhaps better suited to relative to CHEP; how do you think about the threat of online as a CHEP only business?

Graham Chipchase: Yes, and again this was very big consideration before we decided to take this decision, and when we look at it, we don't see the two opportunities online are connected for the CHEP product and the IFCO product. So IFCO, as you know, RPCs are used for a lot of deliveries to consumers, particularly in the UK, and we're seeing a little bit of that now in the click-and-collect model in the US. But we're also seeing a Brambles CHEP solution in other markets, so with more totes. So if you think about the very, very last mile to consumer, we think there's some opportunity for CHEP to pursue independently. So I don't think the two are overlapping.

And also our - and I think this is a consistent statement of what we've said all through this last year; when we look at the opportunities for online retailing for the pallets, talk about the CHEP business, it's more around what are we doing with that last-mile solution into the retailer - so the quarter-pallets, half-pallets. I mean it's unlikely you're going to want your shampoo delivered on a pallet to your home - it's just not going to happen. So I think the real opportunity for CHEP is in that allowing and helping our retailers to replenish faster, more efficiently, put more variety of SKUs in front of the consumer quickly, because that's the challenge they've got against online retail.

So for us, that's the opportunity. As well as, and I'll repeat it again, so the big online retailers, no names being mentioned, are good customers of ours because the model is the same; you're going from an FMCG producer to the online retailer's fulfilment centre in just the same way as you're going from a FMCG producer to a bricks and mortar retailer distribution centre - it's the same. And they're as good a customer for us in that respect as anybody else. So I don't see it as a threat - I don't think separating them out gives you a lost opportunity, they're just different opportunities.

Simon Mitchell: (UBS, Analyst) Just a question on the cost inflation; if we turn to slide 9, you talked about the exit rate for inflation across the different cost buckets, and then we look at what you've incurred in extra costs in FY18; how much more is there to go on the cost base to effectively market to spot costs?

Nessa O'Sullivan: Look it's too early in the year to say what the impact is going to be, because obviously it depends which cost bucket it appears in, and also in which market. Because you've seen in Europe, we have a lot better indexation and flexibility to be able to recover the cost. The point I would make though, looking at that slide it's evident that we lost 2 points of underlying profit growth because of the inflation that we weren't able to recover. As we look at year-on-year with elevated inflation going in, I'd be saying you should expect some incremental impact going into in FY19 year-on-year. We would hope it wouldn't be a full 2 points, but it really is just too early for us to be able to quantify how much that's going to be.

Simon Mitchell: (UBS, Analyst) And the 2% effective price increase that you've managed to achieve through the surcharges; should we think of that as being capped in any way, or that should continue to go up to some extent with the increased costs?

Nessa O'Sullivan: Yes, it should continue to go up, but with some time lag associated with it, because you get to different levels, then there are mechanisms to take charging. So you shouldn't assume it's linear, however you should assume that as contracts come up for renewal, not only will we look for top-line pricing, we'll also look at ways to get improved mechanisms in to improve that recovery. And I guess we're transitioning, as are a lot of other companies, from operating in a very low inflationary environment to what's been a rapid turnaround and very high inflation, and trying to manage in a way that's sort of protects our market position, but also make sure that we get good cost recovery. It just takes a little time.

And if we keep seeing inflation going up, we will have a lag impact. Obviously for us the best case scenario is when your plateau or start coming back down again, when we start to see the benefits. But I think we're much better set-up to operate in that environment than we were 12 months ago - but more work to do.

Simon Mitchell: (UBS, Analyst) And just on that pricing, so getting contracted price increases; if we look at the white wood price, that has been going up in the US because of this cost inflation, and obviously your effectively duopoly partner in the US is facing similar issues; how would you characterise the pricing environment at the moment?

Graham Chipchase: So I think, and we said this last year - we're the market leader in the US, it's our job to, if we feel its right to increase prices to cover increased costs, it was our job to go and do that. We did that. What appears to be is that other people in the market are following our lead, so I think the pricing environment is reasonable - I'm not going to say it's easy, because it never is. So I think one of the key important things is if you look at, and Nessa talked about the different between pricing and effective pricing, the fact that we have been able to get out there, not only and get the indexational surcharges, as contracts have been coming up for renewal, we have been going out and getting price increases, because the environment is correct and right, because of all the cost inflation, but also because the competitors are doing the same. So I think its okay - I mean as I say it's not easy, but it's okay. So I'm not unhappy about that.

Scott Ryall: (Rimor Equity Research) I was wondering, Graham, you talked, or maybe Nessa, you talked about the changing retailer behaviour in the US, could you just clarify what that means? And maybe in that context, if it's going there, to Simon's questions just now, Graham, clearly any time you put prices up the FMCG's base there's going to be pushback; what is the pushback you're getting or where are the constructive dialogues headed at the moment?

Graham Chipchase: So let me try and answer the second bit first. So, yes, there's tension everywhere in the supply chain, so clearly everybody is experiencing rising labour and transport costs, not so much the lumber ones obviously, but certainly labour and transport. And us doing what we have to do for what's right for our business and our Shareholders, gets passed back to our customers, and I suspect - and I don't know, but I suspect they're putting the same down to the consumer eventually, but via the retailers.

The retailers are then doing what they have to do, which is they are trying to look at their costs and either reduce their costs or defray them to other people in the supply chain as much as they can. I mean we saw that, and that's what Nessa meant by changing retailer behaviour; we've seen that been going on for some time, so they started almost before we did in terms of trying to sort out our reaction to inflationary cost pressure. I would say, without lots of very scientific data to back this up, that I don't think it's getting worse but it's been pretty tough for some time, and I think it continues to be tough. So they are doing exactly what we thought they would do, trying to get us to take on activities that they were doing for us before, or charging us to do activities that we weren't being charged for before. But nothing's changed in the last six months.

Scott Ryall: (Rimor Equity Research) That was my question - so nothing's changed, okay. And then in terms of the IFCO transaction, you guys were not there at the time that the original transaction, but your Chairman was on the Board; his statement in the Annual Report doesn't say a huge amount that I'd find insightful in terms of the change in strategic direction here. Could you just comment on what you think is the reason that it kind of hasn't worked together? And maybe in that context, you made some comments about the business in Australia staying with CHEP because it was so integrated - clearly it's possible to be integrated. So what didn't happen here, please?

Graham Chipchase: So I think, again, difficult to answer all the questions because as you say we weren't there at the time. But clearly we've had a look a bit about what is different, and I think that was an appropriate part of the work to do before we came to the decision we've come to this morning. And I think if you go back, so what was the reason for acquiring IFCO in the first place; and you know Brambles had a very, very good RPC business in ANZ and South Africa, and it was by a question of history or for whatever reason, it was a wholly-integrated operationally and commercially. Brambles also had a very small RPC business in Europe, and a little bit maybe in US, and the acquisition of IFCO was really meant to give bulk and importance to the European business to be able to grow that further, as well as taking a position in the US.

And I think, to a large extent that has happened. So if you think about the fact that the old Brambles RPC business in Europe is now within the IFCO business and it's been growing really well - you know job done. I think there was a view at the time - and of course I think the other strategic rationale was, at that point post-GFC, or around about the GFC, that there was a concern about the growth profile for pallets and clearly the RPCs had a higher growth profile, so it was an opportunity to strengthen the revenue profile of the combined business.

So what's happened since then is there may have a been a view, and I don't know fully, that there were some cost - and commercial synergies to be had; I think some of the cost synergies were realised in the US and a little bit in Europe. There aren't really the commercial synergies; so you don't go to a customer today - and in particular you've also got to think that the customers for the pallets business are the FMCG producers, the customers for the RPC business are largely the retailers and the growers, so it's a different customer set anyway. Even within a retailer, the people making the decisions around whether you use RPC or corrugate are not the same people who are making decisions around pallets - I mean they're just not. So that synergy was never really there.

And the operational ones, you know the processes for producing, cleaning, returning the two different platforms are different - so there just weren't that many synergies. The thing that then happened of course was that the opportunities for top-line growth in the pallet business were proved to be much better, I suspect, that was thought back in 2010. So now we're at this position where, and I think Brambles have done the right thing - we've invested in the IFCO business, largely in CapEx, but also some small acquisitions in LatAm, to build up that business so that both of them now are both growing very nicely, and it's really a question of how do we fund the growth of both businesses because they've both got great potential. And I think that's the real fundamental change, as well as a realisation that the opportunities from a synergy point of view are just you're not going to lose any by separating them.

To your other point about well why didn't we then integrate the IFCO business with the CHEP business, in Europe for example. I think it's one of the reasons which I would say looking at it today, because that's clearly something we could have looked at, is that the IFCO business in Europe is incredibly run in terms of SG&A and there would have been absolutely no real saving by trying to integrate it. And my view is that you would integrate it, the cost synergies would be so small, if not dis-synergies, you wouldn't do it, but also there is fundamentally no commercial synergy. If there was a potential big opportunity from a commercial side] then you would say, yes, have a go for it, but there isn't, so [unclear].

Scott Ryall: (Rimor Equity Research) In terms of what you've just said about, particularly the operations of getting a pallet back and what you have to do with that and getting an RPC back, you also mentioned in your comments around changes in material technologies. If the world goes plastic, and I know that's a big if, because it hasn't happened in any of the time I've looked at this Company, do you lose something by not having a plastic business within your portfolio?

Graham Chipchase: So again, another question that we absolutely had address before taking this decision. And when I asked even within our Company, who's the biggest plastic pallet operator in world, a lot of people don't come up with the name of Brambles - well we are. So it's not like we are passing on the opportunity to have a plastic - we have got a great plastic pallet business already. I think if there had been a lot of joint R&D around either injection moulding or the design and the material qualities around plastic versus wood that was isolated just in IFCO, and we'd been using that to make our own plastic pallets or to design our own pallets, I would agree there's a risk, but it doesn’t quite work that way - it's separate groups of people. We have some producers of plastic pallets the same as RPCs but there's no reason why we can't continue on that basis.

Paul Butler: (Credit Suisse, Analyst) Can you just elaborate on exactly what you mean by different investment needs between IFCO and Brambles? I mean it seems to me perhaps what you're referring to there is, in the US IFCO needs very high levels of investment to get that business to where you'd want to be. Where obviously for the growth in Brambles, it probably has lower needs?

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Graham Chipchase: Yes, so it's not just the US statement, so if I try and separate the two. If you take Europe for example in IFCO; the difference is that there are changes going on in terms of the level of - the number of different SKUs that you require, because retailers often want a branded RPC, so for example the wood grain we've seen over the last couple of years, but there's always that sort of requirement. So in our view, the capital requirement is quite - so it's a much more capital-intensive business in some respects than the pallet business.

And if you look at the US specifically, the challenges in the US for our business is that, not only are we largely only in the fruit and veg business rather than protein, therefore there's a seasonality impact which affects asset turns, that can be fixed over time and we were prepared to give it two to three years, but we're not prepared to give it five years, or even longer. But you can fix that problem by converting some of the protein producers from corrugate into RPCs; I think that will happen at some point because of the food health and safety issue as well as just the general sustainability issue.

The other issue in the US business is that we're facing very, very long distances between grower and retailer, and again that doesn't help with asset turns but also, as transport costs go up, put cost on the business. The way to fix that is to either grow the business and you can do that and you get into different chains and different lanes, but also if you were to combine businesses, so you start getting a more consolidated business in the US through M&A, then that would actually help you manage a better network and bring down the costs to operate. But we're not prepared to do that; I mean when we've got other opportunities - whereas other people might well be prepared to do that.

Paul Butler: (Credit Suisse, Analyst) Okay. And could we just look at the pricing improvements you've been able to get in, particularly in the US; I mean you've been particularly pleased with the way the team's gone out to get those. It just seems that's been more successful that what you were sort of fearing six months ago?

Graham Chipchase: I don't think it's been more successful than we were thinking. I mean, if I remember back to the March Investor Day, I was quite bullish about our opportunity to do, but a people in this room were not. So I was kind of saying okay, well we've got - I think we've done what we said we were going to do. I don't think it's been easy, and I think it's not been straightforward at all, but I think we've got to remember also that not all the contracts are up for renewal in one year, so it's an average of a third a year, roughly. And we've got to be able to - we just can't go round and say our costs have gone up, your prices are going up; we've got to be able to prove that there's value as well that we're bringing, and I think that that's - so it's been a combination of that.

And I think back in March we hadn’t done, and I'm also one for not crowing about what you haven't done, that you've got to start talking about it once you've done it. And I was confident we could do it because there was never going to be a better time, because of all the cost inflation and that fact that even the FMCG producers were talking about it, other people in other industries were talking about cost inflation - it was the right time. But until you've done it, you can't be sure you're going to do it.

Paul Butler: (Credit Suisse, Analyst) So looking forward, I mean it looks like the cost inflation, I mean the comps get a little bit easier as we go through the year, so hopefully we're not seeing cost inflation running at quite the level that it did last year. But if it does, are you as confident as you were before about continuing to be able to pass that on?

Graham Chipchase: Well, I think what Nessa said is if you see the same rate of increase of inflation, then we'll always have the lag impact, but the actions we're taking in terms of making sure that we're exercising the surcharge clauses and indexation, we will continue to do that. And the fact that the process for going to customers and explaining why we need to increase prices either on the back of inflation or higher cost to serve or whatever it happens to be, and we've only got through a number of the contracts because the others are not yet up for renewing and renegotiation, you know the intent is still there to do it.

So without wanting to set - you know be too bullish about it, we're saying yes, okay, well the processes are there, if they're in that situation there's no reason why we couldn't expect the same sort of outcome. Now the best opportunity of all, as Nessa said, is if the inflation, the acceleration in the rate of inflation tails off or flattens off, then we should be in a better position because obviously we'll be catching up rather than lagging.

Paul Butler: (Credit Suisse, Analyst) Okay, and if I could just ask about cycle time; you're saying you're seeing an improvement in cycle time. Can you sort of give us a sense of what sort of quantum, and when should we expect to see this turning up in the numbers?

Nessa O'Sullivan: Yes, we did - in the CapEx slide we've shown that it was worth us a saving of I think about $16 million if you look on the CapEx slide where we show you. So our response would be we've seen some improvement in asset efficiency but not as much as we'd like, and we did have some offset factors, in terms of we'd like to see it show up ultimately in CapEx to sales. Part of the offset for us this year too was lumber cost inflation, which is why we were very careful to set it all out so that you can see on slide 22, which shows that the efficiencies and other which is largely cycle time, $16 million benefit.

You can see however that the increase in pallet unit costs went up $21 million; so we're a bit battling on the inflation side as well in terms of the efficiencies coming through. If we were to give ourselves a scorecard, we'd say we've started; Europe we saw some more restocking with was kind of counter to us getting the pallets back quicker - if people hang onto them for longer, not as good. So we want do to more with BXB Digital, we still have them in the targets for next year, and when I talked about CapEx to sales in the outlook, we do expect to see a bit more efficiency flow through. But we haven't yet seen the big step-change we'd like to see across the whole business.

Paul Butler: (Credit Suisse, Analyst) Thanks.

Melinda Baxter: (Merrill Lynch, Analyst) Just in terms of the IFCO transaction, if it does go down the route of a sale, do you have opportunities within the business to reinvest that capital or would you be looking at a Shareholder return?

Graham Chipchase: So I think if we do go down that path, then clearly what we do with the proceeds, you know we'll make a formal decision when we get there. But I guess looking at where we are now, you'd say there'd have to be a combination of maybe paying some debt, returning some money to Shareholders, and investing some money in the programs which we think are very high payback, high return programs, so it would a combination of the three.

Melinda Baxter: (Merrill Lynch, Analyst) And just on that, is there any opportunity to fast-track some of the US automation or is that going to be within the same two to three year time period?

Graham Chipchase: It would be - the issue is not around lack of resources, it's more about phasing it so that you don't have a bigger capacity issue, because you can't just stop them all at the same time, as well as human beings to implement it and having the kit ready to put in the place. So that's what really drives the timing - we wouldn't do it any faster.

Nessa O'Sullivan: The two to three years in the US is doing what we've done over a seven year period in Europe, so it's a pretty elevated timeframe.

Melinda Baxter: (Merrill Lynch, Analyst) Thank you.

Graham Chipchase: No-one else in the room, in which case let's see if there's anyone on the phone please?

Operator: Just as a reminder for phone participants, if you do wish to ask a question, press start one on your telephone. Your first question on the phone comes from the line of Owen Birrell from Goldman Sachs. Please ask your question.

Owen Birrell: (Goldman Sachs, Analyst) Hi guys, just a quick question on the US business. Into the second half we saw the margins decline a little bit further in that business; at the Strategy Day you sort of highlighted the automation platform with the US as a key component of your ability to recoup some of that margin deterioration. I was wondering if you could reconfirm the amount of margin improvement you expect see out of the automation program in the US?

Nessa O'Sullivan: Well what you should expect to see, and I think we have it set out there on the slide, I shall give you the slide reference - so if you go to slide 14. So we would expect to get a four-year payback from the $160 million, but as you can see from the previous slide, on slide 13, it shows you that it's been progressively delivered. Because remember this is about automating around 50 plants over a three-year period, and we're just really in the initial phases of that. So you'll see some benefits in FY19 but you won't see the full benefits until everything's up and running which is as everything will be completed to see the full benefits in FY22.

Owen Birrell: (Goldman Sachs, Analyst) I'll maybe ask the question a different way; if automation was your only lever, where do you think the US margins would get back to after the program is complete?

Nessa O'Sullivan: No, if you go to slide 13, it shows you that we actually have a number of initiatives, not just the automation to improve the margins. We have various cost-out initiatives through supply chain. We've got obviously the pricing and surcharging that we've been talking about which will continue to be put in place. And we also have some other work on key inputs, including a lumber project where we're seeking to get efficiencies that not only help our CapEx spend in terms of unit pallet costs, but will also reduce our repair costs. We would spend about $200 million a year, P&L-wise, in repair costs on lumber - so there's opportunities there. And we'd spend about $600 million a year on lumber in pallet costs - a significant cost to pallets is lumber.

So hence why there are a number of initiatives. As you can appreciate it's not just one initiative that will deliver this - we need to address it on all fronts.

Graham Chipchase: I don't think we've changed our view from the Investor Day saying it's somewhere between 2 and 3 percentage points to margin increase over that sort of three or four years.

Owen Birrell: (Goldman Sachs, Analyst) Okay. And Nessa you mentioned obviously rising lumber costs, so I was just looking at the capital expenditure breakdown that you've put in the slide pack, in Appendix 6, and we've seen a bit of a 12% increase in that replacement component for the pallets. Can I just ask, is that all lumber price, or is there actually an increasing level of replacement volumes in that 12% as well?

Nessa O'Sullivan: If you go on slide 22, there's actually a granular breakdown of all of the components that drive it. So volume growth, you know of the sort of points of movement of 10 points we see in pooling CapEx, you know about half of that is volume growth, new markets which would be capital for things like - we talked about the automotive contracts we won, Kegstar, etc., that's about 3 points. The pallet unit costs about 2 points. Stringer to block is 1 point, and then we have some efficiencies offsetting that. Cycle time of about 1 point.

Owen Birrell: (Goldman Sachs, Analyst) That's great. Just one final question from me on IFCO. I assume the North American and the European businesses are going with the IFCO divestment; I'm just wondering whether the Asia-Pac and the Australian and New Zealand businesses are going as well?

Graham Chipchase: So the businesses that are within IFCO are North America and Europe, as you said. We've got quite a few businesses in Latin America. We've also got China and Japan in there - so that will all go with IFCO. But the business that we've got in Australia, New Zealand and South Africa will stay with CHEP, because they're wholly integrated into the CHEP business.

Owen Birrell: (Goldman Sachs, Analyst) That's great. Thank you very much guys.

Operator: Your next question today comes from the line of Guy Bunce from JP Morgan. Please ask your question.

Guy Bunce: (JP Morgan, Analyst) Thanks very much. First question, did you only start renegotiating the contract prices for CHEP USA in the June quarter? And am I also right in assuming that you're targeting sort of mid to high-single digit type increases?

Graham Chipchase: So I think you're right that we started sort of second half, I would say is when we started. And we absolutely are not commenting on what level of price increases we're going from, and we never have done.

Guy Bunce: (JP Morgan, Analyst) Okay. What proportion of your US customers are now covered by the dedicated transport service contracts? And also what was the cost inflation on this particular component?

Nessa O'Sullivan: Look, there's a relatively small component on dedicated transport, but when you look at our own transport, which I'm not quite sure if you're asking that, we would run about 60/40 dedicated to flexible. We don't tend to go more dedicated than that - in some instances we would just because, in terms of the length of haul and the actual costs of managing buying spot versus the commitment, over time that's what's proven to be the best mix for us. But as costs go up, we would tend to have an increasing percentage of dedicated, but we still always maintain a component in flex given that the demand for our product tends to be pretty volatile depending on the demand from our customers.

Guy Bunce: (JP Morgan, Analyst) And Nessa, what sort of cost inflation on those dedicated service contracts versus the spot rates we're observing?

Nessa O'Sullivan: [We give] overall and I think we break-down in quite a granular level, not only by group but also by market, where we show how much we've got in terms of increases, and you can see there's a combination of total inflation which would include transport inflation that we haven't recovered is about $20 million. And if you want to see it from a growth perspective, we also set that out on - let me find the slide for you so that we're all talking the same language in terms of inflation - which is on slide 9, where we show the total inflation, cost inflation we had was $52 million and we offset that by the extent of about $33 million. So you can take it that transport is a fairly significant component of that overall inflation level. That would be the highest part of that $52 million.

Guy Bunce: (JP Morgan, Analyst) So just to be clear, on the slide 9, 10% increase in transport for the US, 60% of that will be from dedicated service contracts and the 40% from the spot market?

Nessa O'Sullivan: No, not necessarily. The transport you see in the USA, first of all you just need to be careful because that's the exit rate. So the amount that we have on the left-hand side on the graph of the slides that are in the bars is what we actually got. And that depends on when we bought the transport. So post when there was particular weather events in the US, there was massive spikes. So it depends on the timing we buy it as well. And so when you look at the 10%, we're saying that's what we're seeing in the market inflation, yes, in relation to spot rate, but you should assume over time, if you get an inflation of 10%, that that flows through to the contract over time.

So we always say that if there's an increase of 10%, we will take a lower percentage in our actual numbers, because we will have transport efficiencies, we'll have some under contract. But from time to time, particularly when you have those big spikes, we are totally exposed. And it can be at a time say just after Christmas time, when there were some weather events in the US and there was massive transport inflation and we had to absorb all of that. So from time to time that spot piece will be disproportionately large.

Guy Bunce: (JP Morgan, Analyst) Understood. Thank you.

Operator: Your next question today comes from the line of David Li from Lizard Investors. Please ask your question.

David Li: (Lizard Investors, Analyst) Hi guys, can you hear me okay?

Graham Chipchase: I can hear you.

David Li: (Lizard Investors, Analyst) Great. I'm just kind of curious regarding if cost inflation starts - I don't mean to beat a dead horse; if the commodity price then in transportation costs stay where they are today, what other leverage you can pull, assuming everything else is the same, to recover further pricing to improve the margins or recover the 3 point delta you saw on year-on-year for the second half?

Nessa O'Sullivan: We catch up quicker. So you know if you think about existing surcharges don't have to get any higher, and then progressively we get more and more surcharging or the ability to price more contracts over time. If it keeps going up then we're in catch-up mode. So hence why it's very challenging for us to give you a view as to where we're going to be with the costs in the recovery, because we don't have enough experience through the year. We've only seen the June month so far - we haven't even got full results yet on August. So it's way too early to call.

David Li: (Lizard Investors, Analyst) Okay. Also, maybe one or two more follow-ups; when you're talking about signing up these contracts in the US, the 20, 30-year contracts - is the majority of contracts the right duration you guys have for the US, on average are they 10, 15, 20 years? I just want to get a sense like is there any opportunities so that what are some things you guys - what some of the inputs have to be in place for you guys to be more of a [unclear].

Nessa O'Sullivan: Look. maybe I should just make clear, there's obviously a bit of a disconnect, and I don't whether you couldn't hear us; the average length of the customer contracts we have are three years.

David Li: (Lizard Investors, Analyst) Okay. But I thought I overheard that you guys said 20 to 30 year contracts in the US - so that's not - it's a misnomer.

Nessa O'Sullivan: No.

David Li: (Lizard Investors, Analyst) Okay, great. And another question, because I looked at how you guys - I looked at CapEx on a per pallet basis and I look at how much [burn] you have in the pallet; do you guys ever look at your CapEx on a per unit basis? Why wouldn't that make sense?

Nessa O'Sullivan: Do we internally look at CapEx on a unit basis, yes. Do we look at flows by different channels by market, yes. Do we look at the cost of lumber by market and the manufacturing and the efficiencies in the plants at the various points in every market, yes. Do we benchmark them globally, yes. Do we try and take best practice from one market to the other, yes. Do we publish all that data competitively, no. So look there is a lot of - pallets is our business - movements in pallets, the cost of pallets]. Rest assured there is a lot of really smart people in our business looking at this on a day-to-day basis so that we can optimise the outcome, short, medium and longer-term.

David Li: (Lizard Investors, Analyst) And one last question and I'll let you guys go, and really appreciate this. What's going on with PECO in the US; it seems like obviously they've been gaining share quite rapidly. Obviously they're a well-funded competitor with a big backer; I just want to understand a little bit about like what - I mean you guys have a terrific market share, it just seems like given it's such a terrific market, I mean do you think it will be a - do you feel like the market structure is fairly rational, or you feel like competition's still very intense when you guys bid on these big contracts?

Graham Chipchase: So first of all, PECO aren't growing market share significantly; they did about two years ago, 18 months ago, and then we made it very clear that that was not very optimal for the industry, so we took some market

share back. And I think now we're in a situation where everybody's behaving in a very rational way. And I think you've got to understand the things that really drive economics in the industry which are around having a network and making sure that you fill that network and make sure that it's operating in an effective way. So what PECO have done is they won a big piece of business from another competitor called IGPS some years ago, and they've been rational in trying to get bits of business that add to that network, but they haven't been irrational and gone to try and get another big part of network at a silly price.

So whilst yes, you're right, they're well-funded and they've got a big backer; my view is what we've seen over the last six months is they've behaved incredibly rationally, they've been following the price increases we've been trying to set in the market, because they're experiencing exactly the same cost pressures that we are and they also understand how to make money in a pooling business, which is about ensuring that your network is effectively filled but not overstretching and doing things that don't make sense economically.

David Li: (Lizard Investors, Analyst) Okay, great. Thank you so much.

Operator: Your next question on the phone comes from the line of [Unclear] from Colonial. Please ask your question.

Unidentified Participant: (Colonial, Analyst) Hi, my question actually relates to the debt side. Just wondering with your existing bonds, will you need to refinance them? And also what your target rating would be after the demerger? And where you see exit levels for leverage would be after the demerger as well?

Nessa O'Sullivan: So no, we won't have to refinance our bonds, the existing bonds. And all of that in relation to capital structure, et cetera, will be part as we work through the process, we'll work out the appropriate capital structure for the Group. But we're committed to maintaining a conservative balance sheet and a conservative debt rating.

[Unidentified Participant: (Colonial, Analyst) And I guess just to expand on what you consider as conservative?

Nessa O'Sullivan: No, I won't expand at this point, but you can look at the history we've been at and the Board that we have, and assume we're going to continue to remain conservative and high quality.

Unidentified Participant: (Colonial, Analyst) Okay, thank you.

Operator: Your next question on the phone comes from the line of David Rosenbloom from ARCO. Please ask your question.

[David]: Yes thanks. I just wanted to ask a question about IFCO as well, I mean you made it quite clear that you think they're both really good businesses and that they're run quite separately. And I also heard your comments about the use of proceeds and their investment requirements are different. So I guess - I mean obviously you wouldn't be going to sell IFCO if you thought it was reflected in your - the value reflected in your share price today. But I guess I'm more curious about the comments about investment; what kind of investment would you accelerate in CHEP if you had the ability today, because I guess that's what I'm kind of hearing that you're going to do.

Graham Chipchase: Yes. So I think what we would do is, particularly if you look at entering emerging markets where there is a capital requirement and it takes a while to develop the market - we'd maybe go faster on that. We possibly, if we can demonstrate clear benefits, do more on digital. We would look to see if there's more we can do in terms of new platforms and new materials for new platforms. There's a whole range of things which we're doing already but we could perhaps go faster on. So that's what we would do. But I think it's more about the focus - it's not about a lack of funds, it's more about having two different management teams now really focussed on realising, or the longer-term value potential that there is in both businesses.

[David]: Okay, thank you.

Operator: Your next question on the line comes from Jakob Cakarnis from Citi. Please ask your questions.

Jakob Cakarnis: (Citi, Analyst) Good day, guys, two questions for Nessa and then one quickly for Graham. Nessa, you mentioned, discussing the EMEA performance, that there was some price investment initiatives that occurred there; can you just elaborate a little bit on that and then maybe give an idea how that was split say between Central and Western Europe please?

Nessa O'Sullivan: No, we won't split it by region, but I can tell you what we do in that market. So obviously a very big market and we've successfully, consistently driven really strong growth and really strong bottom line. So the team has got a very good expertise in working out competitively where we need to be with pricing to maintain a competitive advantage. And also, as we go into new markets, to focus on getting us increased density which longer-term helps - you know gets us to efficiency levels. So there is a lot of thought that goes in from the teams as to where they will go for price investments; it usually involves trade-offs for longer-term commitments in terms of flows.

It can sometimes mean that a customer might give us other parts of the business that we may not have had before. But it's a combination of all those factors. And if you look in the past, we've announced this as well, that over the past few years, so if you went back about two years ago, there was a big re-sign of some of the bigger customers where we got some additional flows and additional volumes from them as well and tied them in for renewed contracts earlier, but got an extra year on the contract in exchange. So that sort of is the character of those investment pieces on the offset.

Jakob Cakarnis: (Citi, Analyst) Okay, thanks for that detail. Then just on the working capital benefits, I know that you've said that there's a $30 million benefit from timing; how much of the improvement should we think about as being sustainable in the working capital and how does that measure against the initiatives that you've presented in March?

Nessa O'Sullivan: Well it actually well exceeded the initiatives that we had in March. If I was to say in March we actually did a lot better in working capital and a little worse in the asset efficiency than we had hoped to do. A lot of it is sustainable and there is more to go; so centralising procurement has been a fantastic initiative for us because as we've looked at commercial terms to the contracts, it's been about the quality we get, it's been about the price we get, but also about the terms that we give. And through that we've been able to manage things a lot better.

We've also increased the sophistication in terms of our collection and follow-up of receivables. And the other thing that we've done that's really helped too is that, when we've got the whole team focussed on asset efficiency, it's really driven people to go after asset compensation. So if somebody owes us money for a pallet that's lost, when you think about it, it's a tough thing to have to go and ask your customer to pay you for a lost pallet, but we've really pushed people to focus on following for the accountability. One of the nice benefits of that is yes you get the cash back, but the bigger important benefit is you have a productive dialogue with how do you improve asset accountability and management so that you lose less pallets. So some of those things I think we're getting better at doing ongoing. If I was to go net-net in terms of timing, we had kind of $50 million surplus, I would say $30 million working capital timing and maybe $10 million on the asset compensations - maybe timing, is probably how I'd characterise it.

Jakob Cakarnis: (Citi, Analyst) Thank you. Just finally for Graham; look I know that you're taking out the IFCO business as part of a demerger, would there be any potential change to the remaining Brambles business ROCI targets, just acknowledging obviously that there's a different capital base and return profile between both businesses?

Graham Chipchase: So I mean clearly you can see the numbers we put in the slides, that separating the two leads to a change in the mix of ROCI. But I am not one for setting medium-term targets on anything if it can possibly be avoided, and I think we've hopefully moved on from setting ROCI targets. I think what we're saying is you know we're looking at a strong ROCI, and for me that means it's got to be significant in excess of the cost of capital. You've see where we've

been in the last year or two; there's no reason to think that we want it to go down below those sort of numbers, but I don't think we should be setting targets.

Jakob Cakarnis: (Citi, Analyst) Sure is that high teens kind of ROCI profile still relevant, I guess is the crux of the question?

Graham Chipchase: Well, high teens was never something we ever said; we always said mid-teens, so that would be the first thing I would say. And I admire your persistence in trying to get me to give a target, but I'm not giving you one.

Jakob Cakarnis: (Citi, Analyst) Thanks for that.

Graham Chipchase: Right, we have some on the webcast, so the first one is from [Piers at Veridian]; can you outline in some detail how you're thinking about increased penetration and growth in new markets, and what you think they will add to EPS through the cycle? Secondly, is there a requirement for additional CapEx spend in those markets?

So what we're looking at - so if you think about the split of what I mean by new markets, there's what one could call emerging markets, which now the definition is not necessarily correct because some of them are quite developed economically. But where we have a low presence today are things like - places like Russia, India, China - and yes it will require more capital because we don't have many pallets in the market today. And the rule of thumb, which I don't necessarily think is always going to be applicable in places like India and China, because they're very different, is it takes about 10 years to develop a decent sized pooling market. So in terms of - I'm not going to give any comment about EPS, but you can see that in the early years for that 10 year cycle, it's going to be dilutive, and when you get a sufficient network and you can operate the network effectively, you should be getting really good returns.

When it comes to things like other markets, like first-mile solution and last-mile solution, I think the returns are much - are quicker and they're better. You know we're building on an existing network and existing assets we've already got in the market; it's about just going faster and deeper, so I think those are ones which would be more accretive.

The next question is Christopher Schade from Martin Currie; what kind of network disruptions should we expect whilst you automate the plants? Any temporary increase in costs, or slower pallet processing? For the plants that you're automating in the US, are these all outsourced plants? How are the third party operators incentivised to make this change? How safe is the intellectual property? Do you want to have a go at that one? I've read it out, you can answer it.

Nessa O'Sullivan: Okay, well done. Well done, Graham. So what type of network; so we're highlighting that we have got increased costs, because you end up, if you get pallets coming to a service centre that doesn't have capacity to process those, you end up re-transporting, so there's extra transport, extra handling costs. Or if you end up sub-optimally having to run additional shifts, as opposed to as efficiently as you can in plants that are capacity constrained, you'll have an impact. So you might say if you had a look over all of sort of margin decline, you're saying probably about a point of that would relate, roughly-roughly, to some of this disruption.

For the plants, it would be a mixture of plants that we run, and also outsourced plants, and this is exactly how it's worked in Europe where predominantly it has been outsourced plants, like it has in Europe. We work closely, we change the remunerated KPIs with those plant operators - it's something we've been doing over a long period of time so we know how do this. It involves extensive also training, re-training in the plants. Obviously, longer-term, one of the key benefits is we end up with a much higher quality pallet because it's automated. Also increased safety, because it's largely automated, you take out some of the labour costs to inflation. And in terms of how safe is the intellectual property; what we do isn't rocket science.

So in terms of could somebody copy or build something comparable, yes. Would they have a network to be able to get all the supply points, all the re-training, all the implementation; there's a bit of experience, organisational experience having done this over seven years in Europe, because we've transplanted a lot of the team from Europe to the US to do this. So we have proven methods to be able to do it. Could somebody ultimately copy it; yes, they can. Could they do it over a network like we've got; no, because they don't have a network like we've got. But is the technology very sophisticated; no, not really.

Graham Chipchase: Great. So I think with that we've have all the questions, so I'll just wrap up and say, A) thank you very much for your time, thanks for the questions. Clearly, we'll be talking to some of you I'm sure in the coming days and weeks, but other than that, we'll see you in about six months' time. Thank you very much.

Nessa O'Sullivan: Thank you.

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