TRANSCRIPTION

Company: **Brambles Limited**

Date: **23 February 2024**

Time: **10:00 AM**

[START OF TRANSCRIPT]

Operator: Thank you for standing by, and welcome to the Brambles Limited 2024 half-year results. All participants are in a listen-only mode. There will be a presentation, followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number 1 on your telephone keypad. I would now like to hand the conference over to Graham Chipchase, Chief Executive Officer. Please go ahead.

Graham Chipchase: [Inaudible] everyone, and thank you for joining us for our 2024 half-year results presentation. Today I'll start by providing a summary of our performance in the half, our updated outlook statement, and key updates from the Shaping Our Future transformation program. I'll then hand over to Joaquin to take you through our detailed financials.

Turning now to the key highlights on slide 3, our first-half performance was strong across all aspects of our business. Building on the momentum we generated in FY23, we progressed with our transformation program, and our financial results delivered in every element of our investor value proposition.

Changes in our operating environment combined with benefits from our transformation, both of which I'll outline in more detail in my presentation, significantly increased pallet availability across our operations, supporting better customer service levels and material improvements in asset efficiency. I'm also very proud of the progress across all aspects of our sustainability program, and our ongoing recognition as a global leader in sustainability.

Turning to financial performance, our sales revenue growth of 10% was primarily driven by price realisation through improved commercial terms that better aligned to our cost to serve. The operating leverage achieved in our underlying profit growth of 19% was particularly pleasing, considering the incremental increase in plant and transport costs from higher pallet returns, as well as the investments we continue to make across our transformation program.

The stronger earnings profile combined with lower capital expenditure and increased compensation for lost assets significantly contributed to the $303 million increase in free cash flow before dividends. The return on capital invested of 21.8% increased 2% as the strong growth in underlying profit more than offset the increased capital investment in higher-cost pallets to support customers.

Finally, the uplift in earnings, our strong balance sheet, and continued improving cash flow has given us the confidence to declare an interim dividend of $0.15 per share, representing an increase of 22% on the prior year interim dividend.

Turning to slide 4, I will now provide some more detail on the key operating dynamics we experienced in the first half, and outline the anticipated implication for our performance through the balance of the year. Starting with input cost inflation, overall, we experienced a moderate increase in overall input cost in the half, primarily driven by labour inflation, which drives a large proportion of our plant costs in all regions.

Following the extraordinary inflation pressures experienced over the past two years, deflation was seen across lumber, fuel, and US freight in the first half. The lower lumber prices have also translated to lower capital cost of pallets, although these still remain above historic levels in all regions. This deflation delivered operating and capital cost benefits in the first half. However, as we go into the second half, we expect deflationary benefits to moderate as we cycle the prior corresponding period when deflation commenced.

Turning to competition, we have seen market share remain stable in an increased competitive environment, as pallet availability improves for other poolers as well as whitewood market participants. We have seen the continuation of two trends noted at the end of FY23, which moderated new business growth in the period.

The first is dual sourcing, where certain customers have introduced a second pooler for a small portion of their pallet volumes. The second is lower whitewood pricing, which is increasing the time it takes for SME manufacturers to convert to pooling. Despite this, we remain confident in our competitive advantage and the value proposition of our share and reuse solutions.

Turning to pallet availability, we have seen an industry-wide improvement, driven by increased access to lumber and new pallets, as well as inventory optimisation initiatives being undertaken by retailers and manufacturers to reduce the elevated inventory levels built up over the last two years.

This inventory optimisation resulted in approximately 8 million additional pallets returned across our network in North America and Europe in the first half. This is faster than originally anticipated, with our original full-year forecast of 5 million to 7 million returns. We expect a further 5 million to 6 million pallets to be returned in the second half, after which we anticipate inventory optimisation to be largely complete.

Looking at the implications of these operating dynamics for our business in the first half and through the balance of the year, on pricing, given the fluctuating input costs and pallet dynamics, the work in recent years to better align our pricing with the cost to serve has been critical. It means that as the rate of price growth moderates in line with the cost-to-serve environment, we continue to deliver value to our customers while maintaining commercial discipline to generate appropriate returns.

From a volume perspective, inventory optimisation led to a larger than expected impact on organic volumes as manufacturers and retailers continue to draw down on their existing pallets to service demand without replenishing orders. The additional pallet returns, however, improved pallet availability, allowing our businesses in Europe and North America to actively pursue new business. As momentum continues to gather pace, we expect the Group to return to positive net new business growth in the second half of this year, driven by new customer wins in these two regions.

Operationally, the additional pallet returns have resulted in pallet balances temporarily above our network requirement, which currently requires storage. These additional pallet returns also led to incremental repair, handling, and transportation costs, and, considering the longer time spent out in the field, have come back more damaged. We expect these incremental operating cost increases to moderate in the second half as we deploy these pallets to support new customer conversions and replace lost or scrapped pallets.

Finally, we expect a pooling CapEx benefit in FY24 from a reduction of between 13 million to 14 million new pallets due to inventory optimisation. When combined with the asset efficiency initiatives undertaken to recover and salvage pallets, we expect this to be the primary driver for the pooling CapEx to sales improvement of between 8 to 10 points in FY24.

Turning to the next slide, taking all of these factors into account, and our strong first-half performance, we have upgraded our FY24 earnings and free cash flow before dividend guidance, while our revenue outlook remains unchanged. We now expect underlying profit growth of between 13% and 15% at constant currency, and free cash flow before dividends of between $700 million and $800 million.

Revenue growth of between 6% to 8% remains unchanged, as does our dividend payout policy of 45% to 60%. Joaquin will provide further context on what has driven the revised outlook. We also wanted to provide an update on January trading, which informs and provides context to our outlook for the second half.

The trends from the first half continued in January 2024, and we continue to see a slight decline in organic volumes, partially reflecting an adverse impact from inventory optimisation. We continue to achieve modest net new business wins, which includes the benefit of the onboarding and ramp-up of customers converted in the first half of FY24.

Inventory optimisation continued, with additional pallet returns in January following the Christmas trading period. This has informed our view on inventory optimisation in the second half of 5 million to 6 million pallets. Finally, our pricing continues to reflect the cost-to-serve environment, and generating an appropriate return on capital.

Turning to our transformation program on slide 6, we have made good progress across all aspects of the program, which continues to deliver for our customers, support our financial performance, and position our business for future success. After a challenging few years, we are pleased with the improvements to our customer service levels during the period. The many metrics we track are all trending in the right direction, including NPS and on-time delivery in full of our pallets to our customers.

We are encouraged by our digital transformation progress to date, and the value we have been able to generate through the many solutions implemented and embedded in the organisation. We continue to adapt our approach to expanding our digital capabilities as we explore ways to shape the Brambles of the future, and further build our competitive advantage. I'll go into further detail on our progress this period on slide 8.

The improvements we've made to our commercial terms, including better links to inflation and asset efficiency, are allowing us to be more effective at recovering the cost to serve. We've also kept pace with our asset efficiency initiatives, which led to 7.5 million pallets being recovered and salvaged this period. We continue to enhance our asset recovery mechanisms through improvements to our commercial frameworks, identifying collaboration opportunities, and improving our collection engine.

Finally, in network productivity, the increase in pallet returns have tested the investments we've made in automation across our service centres in recent years. I am pleased to say that these investments have made our network more flexible and resilient, with increased capacity to absorb volumes within our existing footprint. This will be further enhanced by the additional 12 automated repair processes we remain on track to deliver in FY24. We've also started on our journey of other efficiency in supply chain initiatives across our network, which aim to make up the expected returns from the 20 sites not being pursued.

Turning to the next slide, as you can see from our scorecard, some metrics have already been achieved, and most are on track. However, adverse operating conditions, particularly over the past two years, have impacted the progress on some of our metrics. Relating to customer engagement, pallet availability improvements combined with quality initiatives drove a significant increase in NPS scores in the first half of '24, albeit off a low base.

Despite this increase, the business remains below target to increase customer NPS by eight to 10 points by the end of FY25, compared with the FY21 baseline. However, we remain focused on service levels relating to pallet delivery, product quality, and creating a seamless customer experience to meet this target. I don't propose to speak about volume here, as it will be recovered in the financial section by Joaquin, except to say that the business remains focused on improving new business and organic volumes.

Turning to asset efficiency, notwithstanding improvements this period in asset compensations and loss rates in the Americas, Brambles is currently tracking below the target of reducing uncompensated pallet losses by 30% by the end of FY25, compared to the FY21 baseline. We expect further improvements to loss rates through the balance of FY24 and into FY25 to deliver the target through industry-wide improvements in pallet availability combined with multiple asset efficiency initiatives.

Finally, in network productivity, despite the benefits from pallet durability initiatives undertaken, pallets have spent a longer time in the supply chain, leading to higher rates of damage. This impacted our target to reduce the pallet damage ratio by 75 basis points year on year through FY25. However, as we continue to track our performance against this metric, we can see a significant reduction in damage rates of those pallets where durability initiatives have been undertaken compared to pallets without.

Looking at the progress we've made with the various components of our digital transformation on slide 8, we continue to embed our advanced data analytics solutions across the business. As outlined on the slide, they are providing insights that are helping us to improve asset productivity, improve the customer experience, and optimise commercial terms.

We are able to collect more assets more efficiently, proactively correct account transactional errors, reduce inventory at retailers, and have a more granular understanding of our cost to serve. The important piece here is that these algorithms continue to improve as we populate the collection model with more and more data relating to recovery activities and interactions with supply chain participants. This should deliver additional accuracy benefits and also be a significant competitive advantage, considering the unparalleled scale of our network, and the data it generates.

We've also made progress with our digital customer solutions that seek to provide customers with unique data and insights to make them more efficient, agile, and sustainable. Of the three digital customer solutions piloted, two have moved into ongoing commercial engagements. While it's still early days, feedback from customers on the pilots suggests there is value for them in having greater visibility of their goods at different points in the supply chain. This is a solution our pooling equipment is uniquely placed to provide as one of the few constants across all points of a modern supply chain.

Turning to targeted diagnostics, we have now deployed our autonomous tracking devices in 32 countries where we're undertaking 50 diagnostics concurrently. We are also seeing the benefits of continuous diagnostics where we have now deployed over 400,000 devices in four countries, including approximately 145,000 devices in the US. We remain committed to deploying 300,000 autonomous devices in the US, however, the timing of the rollout may be slightly delayed as we wait for the next version of the Ultra device.

As an example of what we are learning from our device rollout, we have always known the benefits of targeted diagnostics in identifying potential problems, and proving a hypothesis in a specific lane or channel, while continuous diagnostics is better suited to discovering unknown inefficiencies in the supply chain by continually mapping the network. This network map increases in precision over time, and we have started to see the power of combining continuous and targeted diagnostics to not only identify more inefficiencies but also better diagnose and prescribe comprehensive commercial and operational responses from our frontline teams.

Finally, we remain on track in the trial of our Serialisation+ proof of concept by tagging the pool in Chile by the end of FY24. With a majority of the pool now tagged with serial codes, and with over 50,000 autonomous devices deployed, we've also started to test the viability of new models that can deliver an improved customer experience. We've also started early testing of Serialisation+ at two sites in the UK and North America, as we've progressed feasibility studies in these regions.

Importantly, we continue to test, learn, and adapt our approach to deploying autonomous tracking devices, serialised pallets, and a combination of the two. We are now testing and learning how to operationalise these capabilities at industrial scale, and maximise the value for these two approaches.

Finally, turning to the sustainability highlights for the half, we continue to make progress against our ambitious 2025 sustainability targets, as well as our vision of becoming a regenerative business. In line with our commitment to zero harm, we continue to implement a safety-first strategy, and reduce the Brambles' injury frequency rate to 3.6. There was a 2 point improvement in the number of women holding management positions, and we remain on track for our FY25 target of 40%.

We also made progress in reducing our emissions ahead of our science-based target path. We maintained our 100% sustainable sourcing of timber this period, and also made improvements in our chain of custody certification percentage. Finally, we exceeded our target of 30% recycled or upcycled plastic going into our platforms, which is a testament to the successful integration of sustainability targets into product development. I'd now like to hand over to Joaquin to provide an update on the financials.

Joaquin Gil: Thank you, Graham, and good morning, everyone. Starting with an overview of our Group first-half '24 financial results, Brambles had a strong start to the year, delivering revenue growth in the period of 10% at constant currency, and underlying profit growth of 19%. The 9 points of operating leverage in the period reflected the flow through of pricing and commercial terms to recover cost-to-serve increases, and transformation-linked productivity gains.

These more than offset the incremental costs associated with higher pallet returns, and ongoing transformation investments. Profit after tax from continuing operations increased by 14% to constant currency, as underlying profit growth was impacted by higher net finance costs, reflecting higher interest rates on debt and lease renewals, and the non-cash hyperinflation charge of $25 million relating to the impact of currency devaluation on the share capital of Brambles operations in Argentina and Türkiye. The effective tax rate remained in line with the prior comparative period at 30.5%.

Turning to revenue growth on slide 12, Group sales revenue increased 10%, with growth across all regions. This comprised a price realisation of 11% to recover cost-to-serve increases, including an 8% benefit from rollover contributions from pricing actions taken in the prior year, with the balance, three points, reflecting price increases we have taken on contracts renewed in the first half of '24.

Like-3-like volumes in the period declined 1%, primarily due to inventory optimisation across retailer and manufacturer supply chains, primarily in North America and Europe. Excluding the impact of inventory optimisations, like-for-like volumes increased 1%, as growth with existing customers in the Australian pallets, US pallets, and European automotive businesses offset lower pallet volumes in Europe due to softening underlying consumer demand. Net new business growth in the period was flat, as new contract wins in key markets was offset by net losses in the US business, largely due to the rollover impact of contracts lost in the prior year.

Looking at Group profit analysis on slide 13, our strong sales growth in the period combined with operating efficiencies and improved asset control more than offset cost increases linked to inflation, inventory optimisation, and transformation initiatives. North American surcharge income decreased by $29 million at constant currency, in line with lower market prices for lumber, fuel, and transport noted in plant and transport costs.

Overall, plant and transport costs increased by $79 million, reflecting inflation of $22 million, primarily related to labour costs, which were partly offset by deflation in lumber, fuel, and transport costs. The balance of the increase of $57 million reflected costs associated with quality investments and increased pallet return rates offset by operational efficiencies.

Depreciation increased $30 million, largely reflecting the impact of pallet price inflation on the value of the pool. Pleasingly, for the first time since FY16, we saw an improvement in IPEP expense, which decreased $11 million due to lower pallet losses, primarily in the high-risk non-participating distributor channels in the Americas region. These improvements were driven by the investments we've made to enhance our collection engine in these channels, as well as increasing collaboration with retailers to improve collections.

Other costs increase of $56 million reflected overhead wage inflation and the impact of headcount increases, primarily the rollover impact of hires in the second half of '23 to support growth and the delivery of the overall transformation benefits, with these costs partially offset by higher asset compensations.

Lastly, Shaping Our Future transformation costs increased $15 million, as higher ongoing transformation costs, including investments in digital, asset productivity, and customer service initiatives were offset by a $13 million improvement following the conclusion of short-term transformation costs in FY23.

Turning to the segment result for CHEP Americas, the Americas segment delivered sales growth of 8% to constant currency, primarily reflecting rollover contributions of pricing actions taken in FY23 to recover cost-to-serve increases. Volumes declined 1% in the period as growth in Latin America and Canada was more than offset by the impact of inventory optimisation on like-for-like volumes in the US.

Underlying profit increased 24% and margin increased by 2.5 % at constant currency on the strong prior year comparative period, which include deferred cost benefits in the first half of '23 of approximately $27 million due to lower pallet return rates in the period. Profit growth was a result of pricing and commercial initiatives, improved asset control, and increased asset compensations, which more than offset additional costs associated with higher pallet returns due to inventory optimisation, and increased investment in asset productivity, and other transformation initiatives.

Return on capital invested improved 3.4% at constant currency, driven by the increased earnings, partially offset by a 5% increase in average capital invested, which reflects the addition of higher price pallets to the pool compared to the value of assets written off.

Turning to slide 15 for the revenue profile of the US business, sales revenue for the US business, which excludes surcharge income, increased 9%, with price growth of 11%, reflecting rollover contributions from prior year pricing actions to recover the cost-to-serve. Contractual price increases in the first half of '24 were largely offset by adverse customer mix impacts, noting that we expect a positive contribution from in-year pricing in the second half.

Like-for-like volumes in the period were down 1% due to inventory optimisation at manufacturers and retailers. Excluding this impact, like-for-like volumes increased 1%, reflecting growth in the beverage and protein sectors. Briefly covering historical like-for-like volumes, FY22 and FY23 included the impact of pallet availability challenges, while FY21 benefited from COVID-19 related demand increases.

Net new business volumes in the period declined 1%, as modest customer wins were more than offset by customer losses of small to medium businesses, primarily rollover contributions from losses in the prior year. Historically, pallet availability challenges due to the supply chain disruptions in FY21 to FY23 limited our ability to pursue new business wins in those periods. However, our team in North America is actively engaging with a strong new business pipeline to deliver volume growth in the second half.

Turning to the EMEA region on slide 16, CHEP EMEA delivered sales growth of 11% at constant currency, reflecting price growth of 13%, offset by volume declines of 2%. At constant currency, underlying profit increased 21%, with margins improving by 1.9%, as the sales flowthrough to profit, transport and automation efficiencies, and higher pallet compensations offset cost increases associated with labour inflation, higher palate return rates due to inventory optimisation, and additional investments to support asset productivity and transformation initiatives. ROCI in the period improved 3% as the profit growth more than offset a 7% increase in average capital invested in the period.

Looking at CHEP EMEA sales growth in more detail on slide 17, overall sales growth in the region was 11% at constant currency, driven by pricing growth of 13%, reflecting price realisation across the pallet businesses. Overall volumes decreased 2% as a reduction in like-for-like volumes was partly offset by net new business. Net new business wins were up 1%, largely relating to first-half '24 contract wins across Europe and rollover wins in Central and Eastern Europe and automotive North America. The business continues to focus on converting its strong new business pipeline to deliver volume growth.

Softening demand, and inventory optimisation in the European pallets business was partly offset by like-for-like volume growth in the IMETA and automotive Europe businesses. Inventory optimisation impacted like-for-like volumes in the Europe pallet business by negative 1%.

Turning to the Asia-Pacific region on slide 18, the pallets business delivered revenue growth of 12% in constant currency, including strong volume growth of 7%, mainly with existing customers in Australia, and price growth of 5%, driven by both current and prior year pricing actions. RPCs and container revenue increased 8%, mainly due to the RPC business delivering both pricing and volume growth.

Underlying profit increased 5% on a stronger prior comparative period, which included benefits that did not repeat in the first half of '24, relating to one-off insurance proceeds of $8 million and deferred cost benefits of approximately $6 million due to lower pallet return rates.

Notwithstanding the cycling of these prior year benefits, underlying profit growth reflected sales growth and higher pallet compensations in the first half of '24, partially offset by costs associated with improved pallet circulation in Australia. ROCI decreased 1.5% at constant currency, as profit growth in the period was more than offset by the 9% increase in ACI, which included growth in the pallet pool to support customer demand, higher capital costs of assets, and supply chain investments.

I will now take you through the corporate segment on slide 19. Overall costs in the corporate segment increased $19 million at constant currency, mainly due to a net $15 million increase in Shaping Our Future spend. The increased investment in the Shaping Our Future program was primarily due to an additional $21 million to support the digital transformation, largely relating to additional headcount to support asset digitisation and data analytics activities.

Investments in other transformation activities increased $7 million, mainly in relation to customer experience initiatives, and supporting the delivery of the transformation. These increases were offset by a $13 million reduction in short-term transformation costs, which concluded in FY23. Other corporate costs increased $4 million, reflecting labour-related cost increases, including wage inflation and additional headcount to support Group-wide initiatives.

Turning to our cash flow performance on slide 20, pleasingly, the Group delivered $116 million of free cash flow after funding increased dividend payments in the half. Cash flow from operations increased $377 million at actual FX rates, mainly driven by higher earnings, decreased capital expenditure, and improved compensations for lost assets.

Cash capital expenditure decreased $267 million, driven by approximately 10 million fewer pallets purchased in the period as a result of inventory optimisation and benefits from asset productivity initiatives, as well as the impact of lumber deflation on the unit cost of pallet purchases. Movements in working capital and other cash flow items included the reversal of $90 million timing benefits from FY23.

Cash flow from significant items and discontinued operations declined $35 million on the prior year comparative, which benefited from the $41.5 million final settlement from first reserve. The $39 million increase in cash outflows relating to financing costs and tax reflects higher tax payments of $41 million, due to increased profits and the timing of US BEAT payments.

This was offset by a $2 million reduction in interest paid, despite increased financing costs due to the timing of interest payments. Dividend payments increased $41 million, with higher dividends per share due to the earnings growth, as well as the impact of FX movements.

Now turning to slide 21, and the Group's asset efficiency performance in the period. The pooling CapEx to sales ratio, Brambles' asset efficiency metric, improved almost 14% on the prior corresponding period to 14.4%. This improvement reflects approximately 10 million fewer pallet purchases relative to the prior half, lumber deflation, and the impact of higher revenue.

The 10 million reduction in pallet purchases drove a 9% improvement to the pooling CapEx to sales ratio. This included manufacturer and retailer inventory optimisation of approximately 8 million pallets, or 7% improvement in pooling CapEx to sales. Asset efficiency initiatives delivered approximately 2 million incremental pallet returns through additional recoveries and remanufacturing activities, resulting in approximately a 2% improvement to the asset efficiency ratio.

Lumber deflation resulted in an approximately $90 million reduction in the price of pallet purchases, with Group weighted average cost per pallet reducing approximately 17% at constant currency relative to first-half '23, delivering an approximately 3 percentage points improvement in CapEx to sales ratio. Revenue growth in the period improved the pooling CapEx to sales ratio by approximately 2 percentage points.

Finally, recognising the impact of lumber prices, demand, and the supply chain dynamics on the CapEx to sales ratio, we believe we can sustain a ratio below 17%, which is indicative of our progress on asset productivity initiatives since the 2021 Investor Day.

Turning to our balance sheet, the balance sheet remains strong, and the business made further progress this period in delivering sustainable free cash flow after fully funding dividends, as well as growth and transformation investments.

While there is confidence in continuing to deliver on this element of our investor value proposition, we would like to have delivered the FY24 result in addition to the strong free cash flow generated in FY23 before considering potential further capital management initiatives.

Turning to our FY24 outlook, to provide some further context for the upgrade guidance, which Graham outlined earlier, I will outline some updated considerations which underpin our FY24 outlook. We continue to expect sales revenue growth of between 6% to 8% at constant currency, which remains unchanged from previous guidance.

We expect sales growth for the full year to be driven by price realisation as FY24 volumes are expected to be in line with FY23. Price realisation is expected to moderate in second-half '24 as we cycle higher prior year comparatives. The lower rate of price growth is also expected to reflect improved customer supply chain dynamics, such as better pallet cycle times and reduced losses, which will result in a moderation in pricing linked to asset efficiency.

Volume is expected to remain broadly in line with FY23 levels, reflecting a modest year-on-year improvement in the second half, driven by net new wins momentum in our key pallet markets of the US and Europe. We have lifted our FY24 underlying profit guidance to between 13% to 15% growth, with margin expansion in the second half and full year expected in the Group, Americas, and EMEA regions.

While the underlying profit growth in Asia-Pacific is expected to remain flat in second-half '24, the full year is impacted by the cycling of one-off insurance proceeds received in FY23. For FY24, we expect additional pallet repair, handling, and transport costs across the Group in line with higher pallet return rates, labour inflation, and continued investments in quality and remanufacturing activity.

Deflation across lumber, fuel, and US freight observed in first-half '24 is expected to moderate in the second half. We continue to expect a reduction in North America surcharge income, albeit at a lower decline than the first-half '24 decrease. Improvements to IPEP expense and asset compensations, driven by asset productivity initiatives across the Group, are a key contributor to underlying profit leverage and cash flow benefits in the year.

Overhead costs, excluding Shaping Our Future in the second-half '24 are expected to increase in line with inflation, a moderation to the first-half '24 increase, which included rollover impacts of headcount increases from FY23. Shaping

Our Future costs in the year are expected to be approximately $130 million, including approximately $100 million of spend to support our digital strategy and transformation program.

This includes investments to support the transformation in our data analytics capabilities and our smart asset strategy, which continue to deliver commercial and asset productivity benefits. Short-term transformation spend concluded in FY23.

Turning to slide 24, which outlines further FY24 outlook considerations, net finance costs are expected to increase by between $15 million to $20 million in the year. We expect a full-year hyperinflation charge of approximately $50 million, though this is subject to prevailing inflation and exchange rates in the second half of the year.

The FY24 effective tax rate is expected to remain in line with first-half '24. ROCI for the full year is expected to improve, with second-half '24 ROCI expectations broadly in line with second-half '23 ROCI. We have upgraded our free cash flow before dividends guidance to a revised range of $700 million to $800 million.

This uplift reflects our higher earnings and lower CapEx expectations, with an 8% to 10% improvement now expected in our pooling CapEx to sales ratio for the full year, and lower non-pooling CapEx spend in the year based on revised timing of supply chain and digital investments. The full-year dividend payout ratio is expected to be within our dividend payout policy of 45% to 60% of underlying profit after finance and tax costs, and is expected to be fully funded through free cash flow.

Turning to slide 25, before handing over to Q&A, I would like to take this opportunity to reiterate our commitment to delivering our investor value proposition over the medium term. This includes sales revenue growth in mid-single digits, with operating leverage and underlying profit growth in the high single digits, free cash flow generation through the cycle after fully funding growth and transformation investments, further supporting dividend yield of 2% to 3%. Together with EPS growth in the high single digits, we expect total value creation of over 10% per annum. I will now hand over to the operator for Q&A.

Operator: Thank you. If you wish to ask a question, please press star-1 on your telephone, and wait for your name to be announced. If you wish to cancel your request, please press star then 2. If you're using a speakerphone, please pick up the handset to ask your question. The first question today comes from Reinhardt van der Walt from Bank of America. Please go ahead.

Reinhardt van der Walt: (Bank of America, Analyst) Good morning, guys. Thanks for taking my question. I'd like to just first explore this comment around competitive dynamics. You mentioned that you're seeing an increasingly competitive environment. Can I first just check exactly how many surplus pallets you're sitting on right now?

Second, can I just get a sense of what the direction of pricing is on the new wins? Where are these new wins getting priced relative to existing contracts?

Graham Chipchase: So I'll answer the bit about competitive marketplace, but I won't say what our pricing on new contracts is, as you wouldn't expect me to. I think what we're seeing is, as there are more pallets coming back, and that would be affecting the whole market, not just us, we are seeing a little bit more activity from our competitors, and particularly the US. That's driven partly by some of the bigger customers wanting to dual source.

Now, I think it's very important to say here they're not saying they're going from 100% blue to 50% blue and 50% red. We're talking about 10%-ish would be the sort of move that people are making, and that's just to have security of supply. So, on that basis, we would still expect new pricing on new contracts to be at the levels we've been getting over the last couple of years. You can see that through the in-year pricing wins that we've been getting. We're still getting a reasonable price increase.

Now, the things that are changing, of course, is the overall environment's changing, and our customer behaviour, in terms of how long people are holding onto pallets for, is changing. That means that any price increases will have to reflect that. So I think one of the things that's important to focus on now is not so much volume and pricing; it's about the margins.

The message we're trying to give is, if pricing is coming down to reflect improved supply chain behaviour, then that means our costs are coming down too. Therefore, the margins, we're not expecting margin compression as a result of the pricing movements. I think the other important thing to say is that we have not seen any material moves in market share. So if we are losing a bit through dual sourcing, we're picking it up elsewhere. I think that's probably about as much as I should say on that.

Reinhardt van der Walt: (Bank of America, Analyst) Understood. Thank you. Just the first part there, can you give us an indication on exactly how many surplus pallets you're sitting on?

Graham Chipchase: We're not. I mean, I think you can say that whatever we are sitting on at the moment, we would anticipate that if we start developing or delivering, rather, the pipeline of new business wins, and using them to replace pallets that otherwise would've been scrapped, and we would've had to buy new pallets for, we don't see this as a problem stretching into the long term. It's something we think we can deal with at the moment.

Reinhardt van der Walt: (Bank of America, Analyst) Got it. Understood. Thank you. I just want to check, the previous guidance that you gave us, I think there was an assumption in there around 7 million pallet returns for the year. But now it looks like we're getting much more pallets back, yet the EBIT guidance was actually upgraded. Can I just see just what's changed in your thinking around the earnings implication of a given number of pallet returns?

Joaquin Gil: Thanks, Reinhardt. Look, I think you're exactly right. We've had more pallets back from inventory optimisation at customers and retailers than we'd expected. But when you look at the second half, it's basically like for like with what we got back last year, so about 5 million to 7 million on top of the 8 million that come back.

I think, in terms of the upgrade in guidance, how I would think about it from a ULP perspective is, firstly, obviously the price realisation in the first half was stronger than we expected. Then when you look at the second half, pleasingly, as we touched on, you're starting to see the benefit of asset productivity initiatives. So that's what flows through to both leverage but also more importantly into that free cash flow generation.

Reinhardt van der Walt: (Bank of America, Analyst) Got it. Thanks.

Operator: Thank you. The next question comes from Andre Fromyhr from UBS. Please go ahead.

Andre Fromyhr: (UBS, Analyst) Thank you. Good morning. Just wondering if you could comment a little bit about the new free cash flow guidance, and maybe help us understand how sustainable that run rate is, if you think about future periods? I note you've commented that non-pooling CapEx has some timing impacts. Is it fair to assume that that normalises into '25?

Then the other question as part of that would be, to what extent are you benefiting from this CapEx holiday at the moment from more pallet returns that, if you were to assume a normal environment, whatever that means, would actually see your pooling CapEx to sales tick back up.

Joaquin Gil: Thanks very much, Andre. Look, I think in terms of non-pooling CapEx, I'd think about it in two ways. One, you're right, some of it is timing in terms of projects. But I think the other thing is we continue to have a very disciplined approach to capital investment. So, for example, as we've seen slowing volumes, that means that the payback on some of the automation we were planning to do is no longer there, so we're not investing against that. But what we have managed to do is find other operational efficiencies not related to CapEx that are then delivering those benefits through to the bottom line.

I think then in terms of your question around pooling CapEx, I think, when you look at it, it's not only the benefit of the inventory optimisation. So that certainly is what you see in the first half. As we said, we bought 10 million less pallets. Eight million was from that inventory optimisation, but 2 million was from asset productivity. Then, as I said earlier, as you then look at the second half, what you see is we're like-for-like in terms of that destocking, but you still see that our full-year guidance is broadly for about that 15% range of CapEx to sales.

Then, I think, as you look further out, if you go back to Investor Day in 2021, what we said was that in FY25, we expected to be around about 17% of CapEx to sales, our investment in pooling equipment. I guess what we're now saying is that we are comfortable with what we're seeing in terms of our asset productivity and the progress that we've made that we expect to be below that number before digital, which may be able to take us even further in terms of that CapEx to sales ratio down.

Andre Fromyhr: (UBS, Analyst) Okay. Then just one more from me, maybe coming back to the sort of pricing environment in the US. On the transformation scorecard, it suggests that the pricing and recovery of cost to serve is still in progress. I was just wondering if you could comment on how much of the portfolio of contracts has moved onto cost-to-serve based pricing? Then perhaps picking up on the comment you made earlier, Graham, does that mean we should expect more margin stability under that context, even if prices go up or down?

Graham Chipchase: So I think the process to get everyone onto a cost-to-serve basis is a never-ending task. I think we've started doing it. I think it's more about the refinement of the process. So we've always been able to have a stab at what cost to serve was, based on averages of hundreds of thousands of transactions. Now with increasing data analytics, and the deployment of more smart assets into the US market, when if you think we're trying to get to 300,000 out of 100 million, there's still a way to go.

I think what we're seeing is for some of the bigger contracts, we're beginning to get much more insight, and that's informing a more cost-to-serve driven approach. It's not that every single contract is completely done in terms of cost to serve. So I think this is something that's going to carry on developing over the next years. This isn't a short-term thing.

But, as a result, and I think because of the greater insight we've got, even if we haven't got everyone on a cost-to-serve driven type of contract, that we should start being more comfortable about margin stability in the US, as I think we are getting that real insight in our own cost to serve. It's informing some of the new business pipeline.

I think we're going to be much better at converting whitewood users where we have a much better and clearer idea what the real cost to serve is, so that we don't go after volume at any cost, which I think was something that could quite sensibly have been levelled at us seven or eight years ago. We wouldn't anticipate that happening again.

Andre Fromyhr: (UBS, Analyst) Okay. Thank you.

Operator: Thank you. The next question comes from Anthony Moulder from Jefferies Australia. Please go ahead.

Anthony Moulder: (Jefferies Australia, Analyst) Good morning, all. If I can stay on the pricing thematic for the US, first and foremost, please, it sounds like the velocity improvements that are starting to come through the pool is now being reflected in pricing. Is that what I'm hearing in this conversation?

Secondly, with lumber pricing normalising, is that the next big iteration of how customers will look for a lower price point beyond FY24?

Graham Chipchase: So I think the comment on velocity is fair. We are seeing a lower rate of increase, and that's because we have been through several cycles now of going through the contracts, looking at the cost to serve. But that doesn't mean we're finished, and it doesn't mean that we can't be more sophisticated in ensuring that where there is a higher cost to serve for some customers, we've now got the tools and the data to go after those price increases. So I'm not saying it's the end of the journey. But, yes, I totally agree that the rate of increase is likely to be lower but it's driven also by the cost to serve coming down. I think we've got to remember a lot of the driver for the price increases was about people holding onto the assets for much longer, and building up inventory levels and that is also changing, as you see through the pallet returns side of it. So, on that basis, we would expect any price increases to reflect the lower cost to serve cv as well and I think that's completely consistent.

The point about lumber, I think it's important to say whilst we've seen a lot of lumber deflation, they are still approximately 30% higher than the historic lower levels. So, they haven't come back all the way. If we were to get the debate with customers, and I think we've had it with a few, the sophisticated customers who understand our business model, the debate or the argument we have with them is, yes, lumber prices went up in the market 300% over a two- or three-year period. We did not increase our prices by 300%. We ensured that we raised our prices to get an appropriate return on capital to invest in those high-priced assets when, let's face it, one of our competitors in the US didn't buy any pallets at all. We made those investments to support our customers and to ensure that they could supply consumers.

We have to get the return over a 10-year period. So, I think most of our customers completely understand that and they do remember that, yes, we may not have had enough pallets over the last few years, but at least we were investing in the pool and kept them running even if it was all very uncomfortable for everybody. So, I think we did the right thing and I think it's about balancing, again, the needs of all your stakeholders and making sure that customers are there because they were servicing consumers through the last few years.

So, I'm sure they will absolutely raise the fact that lumber prices are down, but we can also point in the US to the lumber surcharges come off as well which is exactly what they would expect, and we should be reflecting too. So, we're not holding onto that price upcharge when lumber prices were going up. So, I think these conversations are never straightforward, but I don't think they're going to be as one sided as you're, perhaps, implying.

Anthony Moulder: (Jefferies, Analyst) Well, I'm implying with a 50% pricing increase, there was a large component of that that has been lumber which, even if it's 30% up on where it was back in 2019, it's still a long way down on that kind of cost recovery of a 50% pricing increase since 2019.

Joaquin Gil: I think, Anthony, just one thing I'd add is here you're focused very much on lumber. There are other cost inputs. So, we're not in a deflationary environment overall, and hence you see we still took pricing – end year pricing in the first half.

Anthony Moulder: (Jefferies, Analyst) No, I agree and that's why the focus is on lumber because I think that there is the justification for higher pricing to justify the higher cost to serve across the transport and other cost inflations that remain in the business. But hence, the focus on lumber. Can I move to overhead? There was a reduction in overhead in the first half of '24 relative to first half of '23, and that's divisional overhead, not corporate overhead. What exactly is that investment in, and is the expectation that that margin is sustained as that full level of overhead, the $180-odd million from FY23, is reduced throughout the next couple of years?

Joaquin Gil: Thanks Anthony. Look, the investment in overheads really is around data analytics which we've talked a lot about. Asset productivity, commercial teams and customer service. So, really that investment is going against all the areas that we're trying to transform across the business, and I think you can see the results of that not only this half but when you look at the FY23 results. Then in terms of your question around how do you – how should you think about that going forward in our second half '24 considerations, what we've said is you should think about overhead costs, basically, growing in line with inflation going forward for the second half.

Anthony Moulder: (Jefferies, Analyst) That's second half '23 or full year '24 and '23?

Joaquin Gil: On the prior year. So, basically as I think it was outlined a little earlier, the impact in half one '24 is basically driven by rollover FTE costs, and so that's why you're already cycling those when you get to the second half '24, Anthony.

Anthony Moulder: (Jefferies, Analyst) Lastly, quickly, if I can, the uncompensated losses or the compensation from losses is better. What is that level now relative to that FY21 baseline, please?

Joaquin Gil: Look, I don't think – I think what I'd say is we gave a glide path, if you look at the FY23 results, and we're on track at the moment to deliver that glide path in – at the end of the year. So, I think you can see through the results we've made really good progress on asset productivity both in terms of reducing uncompensated losses and improving compensation on lost assets. So, at this stage, we're in line with the glide the path that we published at the – in August.

Anthony Moulder: (Jefferies, Analyst) Very good. Thank you.

Operator: Thank you. The next question comes from Matt Ryan from Barrenjoey. Please go ahead.

Matt Ryan: (Barrenjoey, Analyst) Thank you. Maybe a question for Graham on the second half volume guidance. You've obviously flagged a couple of concerns around whitewood pricing and dual sourcing, but it doesn't look like it's going to have a material impact in your forward-looking guidance. So, I'm just trying to gauge how we should interpret the level of risk that you think exists in each of those. If you could just give some colour on the new business wins that you're expecting in light of all that?

Graham Chipchase: So, I think we've got to be – we've got to split the two drivers of volume. So, obviously, the like-for-like organic growth is not completely out of our hands but driven by obviously exogenous factors and we are seeing a slowdown in the economies in places like the US, and Europe. But I have to say, I think, as you would expect from our business, we're relatively defensive and we're not seeing the sort of declines that we've seen other companies reporting, who are in packaging space because we are very much focused on food beverage and those sorts of consumables. So, that bit, I think, we just have to look at what's happening with the economies, and it feels like we're zero, low minus single digits, maybe low plus single digits. It's very hard to tell going forward, but it's that sort of region.

The net new business wins, I think the positive point is we've got very strong pipelines of opportunities in both the US and Europe and the wins at the moment, we are starting to see – I hate to use that phrase of green shoots, but we have seen green shoots both in the first half in the US, and we're starting to see some green shoots in Europe. So, I think that we'll see in the second half a bit more progress on net new business wins. It's not going to be mid-single digits, it's going to be those low single digits again, but I think if we can deliver that, then I think we're much more confident about returning to the normal pattern of the very low single digits in the US and somewhat perhaps a bit better in Europe if we can start converting some of the bigger whitewood users.

The driver – so just to point a little bit on whitewoods and the dual sourcing. I think a lot of the dual sourcing, I would anticipate we're getting through the majority of that now. So, the bigger issue is whitewood pricing. It feels like it's reached the bottom. That's the indications we're getting from third parties to look at these things. As you know, it's very clear that the whitewood price doesn't determine the ultimate decision to go to pooling or not because it's driven by other factors. You're, obviously, wanting to sell your product over a wider geographic area. But I think if you're not sure about or thinking about it, then a low whitewood price might make you keep with whitewood for a bit longer.

So, it feels like it could be a six month, nine month delay in people's decision making processes. So, in that context, we should start seeing the benefits again into next year. So, as I say, I think it's something worth keeping an eye on. It's not something that we're really, really concerned about. But I think it's important to draw it out because we did think we would have a bit more done by now when we last spoke six months ago.

Matt Ryan: (Barrenjoey, Analyst) That's great. I just had a question on the CapEx to sales comment to sustain that ratio below 17%. I think if you look at slide 21 where you've got your asset efficiency numbers on there, at 14.5%, it looks like 14.5% will be the number for the full year '24. Are we right to just add back somewhere up to 7 points on that further rebound in destocking and then try to work our way back to below 17%? Can you just help us on the drivers of all of that. If you could talk about if it does need to come down, is that mainly driven by sales growth or are you expecting a big improvement in the asset productivity initiatives that you've called out?

Joaquin Gil: Yes, I think, Matt, that's the right way to think about it. Obviously, there's a lot of factors that impact that CapEx to sales. So, lumber prices, demand, as you said, and then, obviously, supply chain dynamics with customers. So, I think as you said, if I take your number that you said for the full year, 14.5%, and we're running at 14.4% right now, and then we're not benefitting from destocking in the second half, then you can see that we really are benefitting from asset productivity initiatives. So, it's not destocking. It's two halves is how I look at it from a CapEx to sale. So, half 1 has benefitted significantly from destocking. Then the second half benefits from asset productivity initiatives.

Then as you were touching on, obviously, volume broadly flat right now. So, as you see volume growth in the future, then you need to add a point or two to CapEx to sales. So, that's roughly how we're thinking about it.

Matt Ryan: (Barrenjoey, Analyst) That's great. Thank you.

Operator: Thank you. The next question comes from Justin Barratt from CLSA. Please go ahead. Justin, your line is open if you'd like to ask your question. I might move onto the next question. It's Jake Cakarnis from Jarden Australia. Please go ahead. One moment please as we reconnect the operator line. One moment. [Inaudible] the Q&A process. Thank you. One moment please. Thank you, Jake, if you'd like to proceed with your question, please.

Jake Cakarnis: (Jarden Australia, Analyst) Hi guys. I'm not sure how much you got of that, but good morning, Graham, good morning, Joaquin. I'll start again. I'll move away from the obsession with pricing because it sounds as though your commentary on the outlook for pricing has been consistent since the first half result, that that will moderate through the year. Can I just focus on costs. Obviously, a $30 million delta in IPEP charge in first half '24 relative to '23. Can you just talk about the sustainability of that into the second half, and an expectation for what IPEP might look like into ’25, please?

Joaquin Gil: Hi Jake. Look, we’re not giving guidance in terms of an absolute IPEP number in the second half, but what you can see as pricing moderates, cost to serve reduces and one of the big factors in that is IPEP or uncompensated losses and also compensations on lost assets that help us to deliver operating leverage.

Jake Cakarnis: (Jarden Australia, Analyst) Okay. Just one for Graham. It seems as though the commentary is that you’re going to wait to see a full set of results and free cash flow before you talk about capital management. What do you need to see into the second half given that the guidance assumes a step up in free cash flow to be confident to do that capital management and how might you balance future transformation investment for further investment in BXB Digital please?

Graham Chipchase: Yes, so I think if you remember one of the things that people have always been concerned about with Brambles is the ability to press a lever one year but not to be able to do it year in, year out. So, we did feel that even though we were confident, we had managed to get on the right side of the asset efficiency initiatives to generate free cash flow. In terms of credibility, it would be good to do it two years in a row, and then we can be much more confident this is a sustainable change in the business model which will allow us then to make some longer-term decisions around capital management.

So, it’s more the passage of time. I don’t think we’re saying that we’re not confident now, but we just think it’s right to do it once we’ve delivered two years in a row. Again, I think we said that in August last year that we would wait until August of 2024, and I think that’s still the plan. Again, if you look at what we were saying back in Investor Day, the plan was that we would be generating these sorts of sustained levels of cash and earnings growth to make – to give us the 10% value creation each year after investing in the business for the longer term.

So, the plan is we should still be able to fund the things that we want to do around customers and digital and deal with the capital management improvements because the cash flow generation is going to be sufficient. I think it’s always incumbent on us to look at the next 18 months, 24 months out when we make those decisions, but that’s a conversation we’ll have with the Board. But from what we can see at the moment, we’re more than capable of doing both.

Jake Cakarnis: (Jarden Australia, Analyst) Thanks Graham. Just one final one while you’ve got the mic. Transformation seems as though it’s going well on track. Can you confirm that you’ll deliver the expected transformation savings? I think they’re around the vicinity of around $200 million in FY25 before you proceed with another program or the next leg of investment?

Graham Chipchase: So, when we looked at those numbers that we gave out at the investor day, we are ahead of those numbers, I think. So, I’m not going to – we’re not giving any guidance for FY25 today, but if you look at the trajectory compared to the numbers we set out, we are absolutely ahead. Of course, the big thing that was in there that caused all the agitation was the large capital investments in digital. We always said, look, we want to see where we are, we’re going to take a stage gate approach to any future investment, and I think that’s still the case.

I think transformation, more and more of it's becoming business as usual. So, I think that's another key point to make. So, all the things we're doing on asset efficiency, and all the things we're trying to put into place for the customer experience, that should just carry on because it's business as usual and I think that is baked into our assumptions about the numbers going forward and our ability to deliver the investor propositions.

So, I don't see this as a big cliff edge decision of are we going to continue doing it or not. We continue to do it. We continue to ensure that any investments are value creating, not just there because we feel like we have to do it for transformational purposes. So, I just see that carrying on and becoming just very much the way we do business.

Jake Cakarnis: (Jarden Australia, Analyst) Thanks Graham. Thanks Joaquin.

Operator: Thank you. Once again, to ask a question, please press star one on your phone. The next question is from Justin Barratt from CLSA. Please go ahead.

Justin Barratt: (CLSA, Analyst) Hi guys. I just want to make sure you've got me now?

Graham Chipchase: Yes, we can hear you.

Justin Barratt: (CLSA, Analyst) Thank you very much. Thanks for your time. I just wanted to check, Graham, I think you've alluded to this on the call, but is there a further expectation from you that the weighted average costs of the pallet will continue to moderate over the remainder of FY24?

Joaquin Gil: Yes, that's right, Justin. So, we expect it to moderate but not at the same rate as you saw in the first half.

Justin Barratt: (CLSA, Analyst) Yes, very clear. The second part and on the back of that, I'm very conscious about your pooling CapEx to sales ratio and the new longer-term guidance, but just thinking about a longer term return to that kind of level. Given how many pallets you've gotten back this half, how many pallets you expect to get back in the second half, and the weighted average price of the pallet to come down. Is it possible that we don't see a return or that pooling CapEx to sale ratio return to those 16% to 17% levels until '26 or FY27?

Joaquin Gil: Look, Justin, what we're trying to do is make a sustainable change here. So, obviously, as we talked about, a little bit depends on demand and customer supply chain dynamics and lumber prices. But we're looking to be sustainable and below that 17% due to asset productivity initiatives and then obviously the digital transformation should be able to then give us another step change in CapEx to sales going forward.

Justin Barratt: (CLSA, Analyst) Thanks. Then a very final one for Graham. I just wanted to check, Graham, again, given how many pallets you're getting back, I think the key to getting the pallets back was [for it to be] in a progressive and relatively orderly manner. But that's quite a significant amount of pallets that you've got back and it does sound like you've got some surplus pallets at the moment. If you do get a relatively normal level of wins, are you confident that we won't see some of these costs drag into FY25 if you've got those pallets lying around in your facility?

Graham Chipchase: Yes. I think it obviously does depend on the level of net new business wins, but based on the pipelines that we can see, and if we take a long enough period, going out for the next 18 months, then we are confident that this won't cause a problem. I think the other important thing to raise is when we were back in, I think, it was '17 or '18, and there was this huge amount of pallets which caused a lot of incremental costs. What we've done since then is obviously make all these investments in automation in the US so, that our ability to process and repair the surplus pallets faster and with less incremental cost is there to help us now.

So, we haven't seen the problems that I think we saw back in '17, '18 as we're getting all these pallets back at the moment. So, that's another sort of potential, a more comforting element for you if you are concerned about it. But as I say, with the pipeline for net new business wins, where confidence is not going to be a long term or a short term – medium term issue.

Justin Barratt: (CLSA, Analyst) Fantastic. Thanks very much, guys.

Operator: Thank you. The next question comes from Scott Ryall from Rimor Equity Research. Please go ahead.

Scott Ryall: (Rimor Equity Research, Analyst) Hi, thank you very much. I suspect there was a bandwidth surge with more Taylor Swift tickets going on sale or something. I have a question, Graham, with your – you've talked about pricing normalising and a lot of the operating environment normalising and the need to – the push into winning net new business and displaying that. I wonder if you can just step back a little bit and just talk to us about how you think the CHEP business in – particularly in the US and Europe, the two big markets, is more competitive now relative than perhaps it was pre-COVID when a lot of your initiatives had taken place. I will have a follow up on digital because I assume you're going to mention that in the answer as well.

Graham Chipchase: Yes, so I think a few things here. One is we have continued to invest in the network and in things like automation and in data analytics. So, never mind digital, but just in the data analytics capability and the reason that's important is that's allowing us, for example, to make much better predictions about when customers have surplus pallets that need picking up, it's giving us the ability to now tell customers to a much narrower window about when we're going to be there to deliver pallets or pick them up. All of that is helping improve things like delivery and full on time.

Yes, it's helped by the fact we've got more pallets, but it's also the processes behind that are allowing us to be less inefficient, doing less of the things that used to annoy our customers. So, I think that bit is where we're becoming much more efficient. The other thing that I think is beginning to make some progress is on some of the quality initiatives we've got on pallets. We didn't back down on that over the last few years and we recognise that in some markets, there's increasing levels of automation. We've got to have a higher pallet standard, and I think we're working towards that and we're doing some nice innovations around improving the durability of pallets.

So, I think all those are important elements. Yes, of course, I'm going to mention digital, as you kindly reminded me. Again, I think these are the things and we've been saying this, I think, consistently for the last few years, that with the price increases that were coming through in the markets, justified by higher lumber costs and all the rest of it, we still have to show that there is value added by using a CHEP pallet versus any other type of pallet.

I think the whole raft of initiatives around sustainability, how we can take waste out of our customers' supply chains, how we can make them and us more efficient, how we can be – do the right thing for the planet by reducing waste in food or even in pallets; all of that, I think, is something that we are focusing on and driving pretty hard now because we have to prove to our customers that there is – this is the extra value of being with CHEP.

Now, I do think if we go a little bit further ahead, when we start being able to really use the power of data and the fact that we have got – we'll have such great data driving the algorithms that make us a better business and easier business to do business with as well as giving the great insights to our customers about what's going on in the supply chain. That will be a huge competitive advantage. But we're not there yet, so I'm not going to say we've done it, but that's clearly the direction of travel.

Scott Ryall: (Rimor Equity Research, Analyst) Okay. Then my follow up on digital, could you just talk to the shape of the investment curve from now? I don't mean to say just digital, but just all the digital and data initiatives that you're looking at. How do we think about your investment in that over, say, three to five years?

Joaquin Gil: So, Scott, if you go back to 2021 Investor Day when we outlined as part of the transformation what we expected to be the spend in terms of digital, from an operating cost perspective, we're broadly in line with what we outlined at Investor Day, and then from a capital investment perspective, we're running significantly below that spend. I think that's a combination of testing and learning on some initiatives, but also, we found ways to do more capital light.

Scott Ryall: (Rimor Equity Research, Analyst) Yes. So, the reason for timing my question now, Joaquin, is at that '21 Investor Day, there was a significant step up in '25, if you hit certain stage gates, and so what I'm wondering, I get that you're below at the moment, but do you see a point at which there's a significant step up or is it more this gradual flightpath that you've been on because it's, as you say, your test and learn has helped you optimise your spend or prioritise your spend a little bit better.

Graham Chipchase: So, I think there are two elements here. One is, I think, if we look at the digitisation of the pool, I think that is going to be a gradual but increasing investment. So, let's see what happens in Chile, are we going to go down the sterilisation plus route or a different route? That's going to be stage gated, but fundamentally, I think we think it's good to digitise the pool in one form of other. So, I suspect there will be more CapEx involved from that. But it's not going to be a big step up in one year. That's for not only the reason that we'd want to make sure we were stage gating the investments, but just from a practical perspective, you can't convert a $100 million asset pool in one year. It just doesn't happen that way.

The other bit though which is where there was quite a chunk in in '25 in the Investor Day, stuff was around digital customer solutions. Again, that is something that we are taking slowly, we're looking at pilots. I actually think it will be really good, and we'll come up with some great value propositions and some really great things for customers, but this is not going to happen in a big way quickly. So, I think that is one which definitely is going to be stretched out a bit and will be a bit more considered, I think, going over and because it's one of those things which is very customer driven, and we'll take it on a case-by-case basis. So, I think that you've got to look at the two differently, but I would say, yes, we are not expecting to see that big step up in '25 that was in the investor day presentation.

Scott Ryall: (Rimor Equity Research, Analyst) All right. Thank you. That's all I had.

Operator: Thank you. The next question comes from Owen Birrell from RBC. Please go ahead.

Owen Birrell: (RBC, Analyst) Good morning, guys. Just firstly, can you hear me?

Graham Chipchase: We can hear you.

Owen Birrell: (RBC, Analyst) Excellent. Good. So, just a couple of questions from me. The first one was just referring to your free cash flow guidance upgrade. The $250 million increase, if you extract the $100 million [deficit] from the non-pooling CapEx deferral, it appears that you've increased that by $150 million based on better performance due to asset efficiency. What I wanted to understand is, is that $150 million increase, is that the above your expectations for the first half, and therefore, you're going back to what your previous assumptions were for the second half, or is that $150 million better performance your assumption over improvement across the full year?

Joaquin Gil: Thanks, Owen. Look, I'd say it's a combination of both. So, we – as we've talked a lot about on this call, we've seen better than expected results from our asset productivity initiatives and so that's factored into the second half and then, obviously, destocking we saw happen at a faster rate than we expected in the first half.

Owen Birrell: (RBC, Analyst) So, it's fair to say if you see faster destocking than expected in the second half, then you'll get some better asset efficiency, again, in the second half? Is that the way I should read that?

Joaquin Gil: Look, the way I would think about that is just obviously there's a lag in terms of pallet purchases. So, let's say destocking was faster, you're likely to see the cash benefit in FY25 as opposed to in FY24.

Owen Birrell: (RBC, Analyst) Okay. Understood. Just a second question from me around the margin. I just want to marry up a couple of comments that you made in your outlook considerations. The first comment was that your second half margins would expand at the Group level, Americas and EMEA, but then also you've said there that your second half plant and transport costs as a percentage of revenues are likely to increase. Now, that suggests that the margin expansion is going to come from either other costs, D&A or IPEP. I'm just wondering which of those three is going to be a bigger driver of that margin expansion?

Joaquin Gil: So, I'd say the biggest driver is asset productivity initiatives although we continue to focus heavily on operational efficiencies as well. But in the second half, it really is around asset productivity initiatives which is IPEP, as you said, and also an increase in compensation for lost assets.

Owen Birrell: (RBC, Analyst) Okay. Excellent. Thank you.

Operator: Thank you. The next question comes from Anthony Longo from JPMorgan. Please go ahead.

Anthony Longo: (JPMorgan, Analyst) Good morning, everyone. Congratulations on the result. Just a quick one from me with respect to a lot of the ground has been covered thus far. But with respect to the productivity measures that you have achieved to date, how should we now be thinking about the operating leverage within this business going forward? Are these levels now sustainable or ultimately, how should we be thinking about the conversion to cash and coverage with profit as well?

Joaquin Gil: Thanks, Anthony. I would go back to our investor value proposition. So, as we talked about sales revenue in mid-single digits and then underlying profit at high single digits.

Operator: Please standby as we reconnect the audio.

Operator: Hi, can you hear me on the backup line? Thank you. I'll join you back through. One moment please.

Operator: You are now rejoining the main conference.

Operator: Thank you. We're being reconnected with the speaker line.

Joaquin Gil: Can you hear me?

Operator: Thank you. We can hear you now.

Joaquin Gil: Great. Did you manage to catch that answer, Anthony?

Anthony Longo: (JPMorgan, Analyst) [Unclear 83:36]. I just want to get more of a sense, is there any sort of step change? I appreciate your commentary with respect to in the pricing environment, should that moderate, you don't necessarily expect margins to decline. It is a sort of a resetting of the business now. Are you thinking about that operating leverage or it's still pretty much in line with what you have historically?

Joaquin Gil: Yes, I think, in line with that investor value proposition. How I think about it a little bit is there's quite a lot of focus on pricing on revenue in this call which is, obviously, important. But you have to look at it in relative to the cost to serve and the supply chain dynamics. So, obviously, as we improve asset productivity, then things like cycle time and losses reduce, so pricing over time reduces. However, you still get operating leverage because you have operational cost savings, and you also deliver better free cash flow generation.

Anthony Longo: (JPMorgan, Analyst) Yes, perfect. Then in terms of so that free cash flow piece, that coverage to it, to NPAT. How should we be then thinking about that in the context of sustainability and what you largely flagged today, taking into account that the timing benefits that you might be getting on pallets within the pool?

Joaquin Gil: I think as we outlined, Anthony, we're confident in that free cash flow generation is sustainable, but obviously, we would like to deliver FY24 before we look further out. We'll continue to look at what the – what projects or initiatives we may be able to invest internally and then we'll consider capital management.

Anthony Longo: (JPMorgan, Analyst) Thanks for that. Sorry for disconnecting the call.

Joaquin Gil: I didn't want you to think I had hung up because it was a tough question, Anthony.

Anthony Longo: (JPMorgan Analyst) No, I thought you were [inaudible].

Operator: Thank you. The next question comes from Sam Seow from Citi. Please go ahead.

Sam Seow: (Citi, Analyst) Good morning, all. Thanks for taking my questions. Look, just a couple simple ones from me. Top line, 10% is always a good result. But I just wanted to ask if you exclude the full year annualisation of past contract roles, what that number would be?

Joaquin Gil: So, we talked about that price realisation was at 11 and 8 points was rollover pricing and 3 points was in new pricing.

Sam Seow: (Citi, Analyst) Okay, and that new pricing, can I ask directionally whether the contract renewal pricing was up or down in the first half '24 versus second half '23?

Joaquin Gil: So, when we talk about that 6 points, that is recovering costs to serve in the current year. So, again, as I think we've outlined, we're continuing our very disciplined approach to making sure we recover costs to serve, but what we're doing is working really hard to help our customers as well as within our own business reduce that cost to serve.

Sam Seow: (Citi, Analyst) Okay. But can I ask directionally whether that pricing was up or down first half '24 versus second half '23?

Joaquin Gil: I think there's a range of factors you've got to look at which is customer mix, volume by channel, et cetera, et cetera. So, I would more look at the fact that we managed to deliver very strong operating leverage in the first half as well as delivering that in FY23.

Sam Seow: (Citi, Analyst) Okay. Got it. Then maybe just on page 15, a simple one. Net new business losses in SME. That's not something I think we usually see. So, I just want to clarify how you define things like the dual sourcing? Is that in the like for like, and just what that net new business loss, like what's in that number? Thanks.

Joaquin Gil: Yes, so any losses go into our net new wins or net new loss number.

Sam Seow: (Citi, Analyst) Dual sourcing, is that defined?

Joaquin Gil: Dual sourcing is defined as a loss, yes.

Sam Seow: (Citi, Analyst) So, in the net new…

Joaquin Gil: On a [line] by line basis as opposed to on a customer basis. So, if you lose any volume from a customer or a line, then that would be considered a loss.

Sam Seow: (Citi, Analyst) Okay. Perfect. Thanks, guys. I appreciate the colour.

Operator: Thank you. The last question today comes from Cameron McDonald from E&P. Please go ahead.

Cameron McDonald: (E&P, Analyst) Morning, guys. Lucky last. I just wanted to just delve into the transformation benefits, if I can. So, you've said that you've generated $37 million worth of those transformation productivity gains. How much of that is actually flowthrough from prior period initiatives versus initiatives undertaken during the period, and then how do we think about those transformation benefits continuing into the second half, ex asset productivity issues such as IPEP because I've got a separate question on IPEP.

Joaquin Gil: Thanks, Cameron. In terms of how to think about – I think your question is around how to think about plant and transport cost in the second half, and in our FY24 outlook considerations on slide 23, what we've outlined is that we expect plant and transport costs as a percentage of revenue to increase relative to second half '23. But just to broaden your question a little bit, when I think of the transformation benefits, yes, there are operating cost benefits, but we shouldn't forget, obviously, it's delivering pricing benefits and also to help us better understand the cost to serve.

Cameron McDonald: (E&P, Analyst) Yes, I get that, sorry, but are you actually then saying that that $37 million will be lower at the full year than what it is in that – at the half year?

Joaquin Gil: Sorry, I lost you a little bit.

Cameron McDonald: (E&P, Analyst) So, are you then saying that that $37 million is going to be lower at the full year than what it is at the half?

Joaquin Gil: What we're saying is that you'll see revenue moderate in the second half. So, obviously, those costs as a percentage of revenue will increase. But we'll still have operating efficiency benefits within that.

Cameron McDonald: (E&P, Analyst) Yes. I suppose I'm looking at the absolute dollar though rather than as a percentage because you've said it's $37 million.

Joaquin Gil: Yes, so we still expect the continuing benefits from automation and other initiatives like procurement that we have in place.

Cameron McDonald: (E&P, Analyst) Okay, thank you. In terms of IPEP, what are you needing to see or the auditors needing to see to have that step down from where it is currently? Somewhere between – you've said $11 million in the slide, in the cash flow statement it's [$6.7 million], so it hasn't really moved materially after having several years of moving up and almost doubling. What are you waiting for or what are the auditors wanting you to show them before that unwind noting that you've highlighted it in the second half, that it will come down?

Joaquin Gil: Yes, and Cameron, you're a tough marker really because I understand that maybe, the reduction in IPEP is not a massive number, but if it you look at historically, it's been increasing. I think it is a pretty good improvement, right. We've clearly a lot more work to do and then just how the process works is obviously it's based on audits at customers and a methodology that's consistently applied. So, it's not so much about what we need to do for the auditors, it's seeing the reduction in losses in the marketplace.

Cameron McDonald: (E&P, Analyst) Yes, my point is though that you're now at your previous full year expected pallet returns, so clearly those pallets haven't been lost and so why proportionally hasn't the IPEP actually come down further in the first half is my question?

Joaquin Gil: I see. I think they're two different things for me. One is where you've lost pallets versus pallets coming back. So, obviously, the faster pallets cycle through, the less losses you expect. But it's not like these were 6 million pallets that we expected to have lost that have then all of a sudden come back.

Cameron McDonald: (E&P, Analyst) Yes, okay. Then just finally on the destocking. You've indicated on slide 4 that you expect minimal impact. What gives comfort around that and what are the conversations you're having with customers about their inventory level expectations into the second half?

Joaquin Gil: Yes, that's exactly right, Cameron. So, we look at it two ways. One is discussions with customers and retailers about their expectations on outlook, and obviously, in line with that, pallets. Then also we run our own internal metrics on things like cycle times et cetera to validate that. We've talked about before, there's a lot of moving dynamics here. So, it could be plus or minus the number that we expect it to be.

Cameron McDonald: (E&P, Analyst) Yes, sure, but we're still seeing reported numbers and outlook commentary coming from some of the bigger retailers that inventory levels are still trending down. So, I'm interested and cognisant that you are probably one of the first companies to talk about destocking. So, I'm interested to see why – what you are seeing or hearing that would indicate that in the second half, you're not necessarily seeing much pressure on that front?

Joaquin Gil: Cameron, you're exactly right. Maybe if I just help you a little bit by rephrasing that. So, we still expect another 5 million to 6 million pallets of destocking in the second half. The issue or the reason you don't see that impact on volumes is because we had 5 million to 6 million of destocking in the second half '23. So, on a like-for-like basis, the impact is basically neutral on volume, but we do expect to get back another 5 million to 6 million pallets.

Cameron McDonald: (E&P, Analyst) Yes, okay, so it's a comp thing. Yes, perfect, thank you.

Operator: Thank you. At this time, we're showing no further questions. I'll hand the conference back to the Company for any closing remarks.

Graham Chipchase: Great, thanks very much and thanks, everyone, for your patience with the technical difficulties as well. I hope you've seen we're really pleased with these results and it's a real testament to what everybody in the Company has been doing and the fundamental efforts around the transformation. But we'll look forward to speaking to all of you, I think, in the coming days. So, thank you very much.

[END OF TRANSCRIPT]