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Start of Transcript

James Hall: Thanks for joining us this afternoon. Those of you in the room and also those of you joining on the webcast. Just a couple of things for those of us who are here in the room. In the event of an emergency, there is an exit the way you came in and one there. But I'm told there will be a very, very loud and non-confusing alarm in the event of an emergency and then a man will arrive in a bright yellow jacket and escort us out. Those of you who didn't see, if you do need to use a restroom, it's just out the door and to the right. That tea and coffee station - water if anyone needs to grab water, water is at the back of the room - but do go back out and grab tea or coffee if you need to.

The main purpose of this arvo - actually, could you just put the agenda slide forward for me? The main purpose of this afternoon is really, we're taking advantage of the fact that Peter, Wolfgang and Jason are here in Australia. So please use that opportunity and ask them lots of questions. I know they're looking forward to it. But - so we want as much Q&A as possible but we will be running through a few prepared slides first and there'll be appropriate points within that where we take questions. For those of you on the webcast, you can submit questions via that webcast at any point and then I will make sure they get asked here in the room.

Tom and Zlatko will go through a bit of a general business update, including the higher level of the first quarter trading and the update to our guidance on the Ferguson acquisition and the acquisition accounting impacts. Jason's then going to go into a bit more detail on Ferguson and its historical financial performance. Then Jason, Wolfgang and Peter will each go through their first quarter trading in their respective businesses in just a little bit more depth.

So we should have plenty of time for questions afterwards. We'll close no later than 5pm. If anyone here wants to hang around and have a drink afterwards, we've got a section in the bar on level 35 here at the hotel reserved under Brambles. So do join us if you want to for a drink at the end.

Just on currencies et cetera, all the numbers you'll see, unless stated, are going to be US dollars and comparisons unless stated will be in constant currency, as usual. There is a disclaimer at the end of the deck that I always draw people's attention to as a matter of course in relation to forward-looking statements.

So without further ado, Tom, thank you.

Tom Gorman: Well thank you very much, James, and thank you all for taking time out of your business schedule and, of course, in front of a - a day before a bank holiday here in Melbourne, thank you for making time for us.

I will begin the business update with a summary of our first quarter trading. Then, as I think you all know, this was all released to the ASX this morning. So I'll walk you through that. Next slide.

So as you can see on this slide here, constant currency sales revenue for the group was up 7% compared with the first quarter of last year. That totalled US$1.37 billion. This was broadly in line with our expectation for the full year. Although I would like to point out here that full one percentage point of that growth came from the three acquisitions we have made since the prior corresponding period. Those three being the Ferguson Group, Transpac and Airworld. So the combination of those three led to about 1%.

Growth in the pallets business of 5% to US$1.03 billion reflected consistent growth in all of our regions across the world. Now while this was in fact solid growth compare with the weaker underlying economic conditions and the cycle of a very strong comparative period, particularly in the Americas last year, we are in fact confident of stronger growth in the pallets business in FY15 in total. Now Peter will go through that in a great more detail in a few moments.

In the RPC business, growth was in line with our expectations at 10%. That business in the quarter generated US$234 million of revenue. This was really reflective of continued strong growth, again in all regions. What was particularly pleasing here was the momentum that we continue to deliver in North America. Again, as James said already, Wolfgang is here with us today and he'll go through that in quite a bit more detail as well.

Now headline growth in the containers business stood at 19% in the quarter to a total of US$105 million. Now this was in fact largely a result of the three acquisitions that were made prior to the - in the prior corresponding period. Again, not to be repetitive, but Jason is here and Jason will cover that in a lot more detail. We thought it more important that you hear from the operating executives on each of their businesses rather than just my voice.

Overall, we felt that quite the quarter presented some very real challenges and certainly it did not exceed our expectations, we remain on target to deliver to our expectations at the start of the year. We are in fact confident of stronger growth in the second half.

Now what I'd like to do is move onto our revised 2015 outlook which now includes the contribution of Ferguson for the 10 months to the balance of the year. Just to remind you, Ferguson joined the group in consolidation from September 1 of this year. Now, including Ferguson, we should be at the top end of our high single digit sales revenue growth. This will put us at about 8% to 9% year-on-year sales revenue growth. Our underlying profit range increases by US$25 million, so our revised guidance on the total business including Ferguson now is US$1.055 billion to US$1.085 billion. Just to remind you that that is shown at 30 June 2014 foreign exchange rates.

Now that equates to growth of 9% to 12%, reflecting leverage that we are getting to the bottom line. So top line growth in the range of 8% to 9% and bottom line in the range of 9% to 12%. Now unlike last year, we expect stronger growth in the second half than we're actually seeing in the first. This is reflecting the strong second quarter and the very weak third quarters that were experienced in FY14 last year. Just to remind you that in last year, in the third quarter, we had that very, very challenging winter weather, particularly in the North American continent, that really slowed down our growth last year.

We are also expecting profit growth of the Americas to lag sales growth in the first half, although this should revert in the second half. Again, Peter will go into this a bit later. As we have now, as you all know, debt funded the Ferguson transaction, we expect our finance costs to go up to between US$125 million and US$130 million. Our expectation for a 29% effective tax rate is unchanged relative to the guidance that we gave at the beginning of the year. Now our return on capital invested, the acquisition will drive a result slightly below that of FY14. But we continue to expect and improvement from all of our pre-existing businesses in FY15. Again, we'll cover this in more detail at the interim results in February and then of course our full-year results that will be in August of next year.

I just want to recap to all of you our longer term objectives, which are in fact unchanged. Now hopefully some of you will see this slide as a familiar slide. Because we presented it at our Sydney investor day in December of 2013. Just as a reminder of what we set as our objectives; we are targeting annual sales revenue growth in the high single digits in constant currency terms and return on capital invested of 20% by the 2019 financial year. These objectives were set on an organic basis. What I mean by that is that they excluded the impact of any merger, acquisition or divestment activity. Although goodwill associated with the three acquisitions that we've made since December of 2013 will in fact have a dilutive impact on Brambles' return on capital invested, we as a team remain focused on achieving the 20% target on aggregate, even after those goodwill impacts by the time we get to 2019.

Now in addition to our strategy for Ferguson, again which Jason will expand on shortly, we continue to expect our investments in asset management and business development as well as the delivery of the One Better program to support the achievement of these goals that we articulated back in December of last year.

I'd now like to hand over to Zlatko. Zlatko will talk in more detail about the role of acquisitions in our overall corporate strategy. As we know, this has been an area of focus for several of you since we made the Ferguson purchase.

So with that, Zlatko.

Zlatko Todorcevski: Thanks, Tom, and good afternoon everybody. As Tom said, I'll start by talking about the acquisition accounting for Ferguson and give you an update of the thinking in that space. Then I'll spend a little bit of time just talking about how we more broadly think about acquisitions as part of our overall value creation strategy.

As at 30 September 2014, using the exchange rate on that date, the acquisition price for Ferguson of £320 million converted to US$523 million. As Tom said, at the completion date of the acquisition being 12 September and using that exchange rate, the actual cost of that acquisition of £320 million converts to US$515 million. On a preliminary, unaudited basis - and I'll just caveat that by saying we still haven't completed all the work around purchase price allocations and the like - but based on our preliminary work in this space, we see identifiable, intangible assets in the range of £30 million to £40 million. Based on our expected 10 year life of those intangible assets on a straight line basis, we'd expect to see up to about £4 million per annum of amortisation charges coming through in relation to Ferguson.

Now if you think about the fact that, as Tom said, we'll only see 10 months of Ferguson consolidated in the current financial year, on a US dollar basis, the impact of that amortisation charge should be roughly about US$6 million in FY15. As we disclosed in September, based on our due diligence work at Ferguson, we expect to see about £114 million of net operating assets in Ferguson. You might recall that we also disclosed the depreciation policy of Ferguson at that time was to depreciate their assets over a 15 year useful life with a 10% residual. We don't anticipate changing that policy but if we do, obviously we'll come back to you. But at this point in time, that's what we do anticipate going forward with.

In a moment, when Jason talks about the strategy for Ferguson, he'll also give you a sense of what the historical depreciation charge for Ferguson was as well.

Return on capital for Ferguson in the FY15 year, once you take into account depreciation and the amortization of intangibles, we're expecting to be about 6%. But we also do continue to believe that we can grow it strongly from that point and deliver an overall return on capital of Ferguson of about 12% by FY19. Once again, we'll outline the value-creation strategies that we are pursuing now that Ferguson is part of the Brambles family.

If we go to the next slide, I'll just spend a little bit of time talking about how we do think about acquisitions and the role that they play in our overall value creation strategy. This slide, or this set of slides, will come through as a bit of a build, because I'll try to tell you the story about how our thinking progresses and in particular how we think about different businesses at different lifecycles and their maturity. The slide you see here up in front of you is what we call a maturity matrix. It enables us to plot each of our businesses to give you a sense of where they - where they're positioned as part of the portfolio.

If you start at the left and as you progress to the right you can see the trough. That trough represents the 12% return on capital point. That's essentially where our businesses become BVA neutral. As you continue to move to the right, that's when they start to generate higher return on capital. You can see the point there at which they're generating 20% return on capital which, as Tom said, is our target for return on capital from the overall Brambles Group by FY19. As you move from left to right, that generally reflects increasing penetration within those different businesses and their addressable markets as well. I'll touch on that as we go through that.

Before I go onto the next part of this slide, though, I'll just orient you. The relative size of the bubbles that we'll be showing you reflect the relative size and contribution of those businesses to our FY14 revenue. The position of each of the bubbles is approximately illustrative. But it'll once again give you a sense of the relative contribution from each of our businesses.

So starting from a very strong position with these businesses shown on the chart that represent about 80% of our sales revenue, based on FY14. They're all generating in excess of 20% return on capital. It represents most of our pallets business, excluding pallets in Asia. But it also includes RPCs in ANZ and South Africa. These are what we call classic horizon 1 businesses, and you've heard us talk about that in the past. Given the capital-intensive nature of most of our pooling businesses, the way that we think about operating leverage is really incremental return on capital. All of these businesses generate very strong incremental return on capital, well in excess of 20%.

It's clear, however, as these businesses increase in penetration, the opportunity to redeploy capital becomes reduced because of the relatively higher penetration we have in each of those different sectors. Although new platforms and initiatives like the half-pallet in our North American pallets business provide fantastic medium and longer term growth opportunities for us, in some cases they are still emerging opportunities and the opportunity to really deploy massive amounts of capital is somewhat limited in the near term.

We're also generating more cash from these businesses as we continue to improve asset efficiency. Just looking at the businesses that are up on the slide at the moment, they generated approximately US$220 million of operating cash flow in excess of what they did as recently as FY10. At the same time, those businesses only required growth CapEx of about US$150 million. So that liberates about US$70 million from these horizon 1 businesses which can be redeployed elsewhere in the portfolio to continue to accelerate growth. That's what we're focused on. That redeployment of that cash generation from our horizon 1 businesses into opportunities that create net present value irrespective of what the near term return on capital profile might look like in some of those opportunities.

The next part of the slide, you can see what we consider to be horizon 2 businesses. So that's in that band between 12% return on capital and 20% return on capital. This is the band where we see the greatest rate of acceleration in both return on capital improvement and NPV creation. As those businesses continue to leverage their overall footprint and overheads, as those businesses grow, while still having quite substantial addressable market opportunities ahead of them. On aggregate, this is where our automotive businesses are positioned.

However, if you look at incremental return on capital in the automotive business, it's more akin to a horizon 3 business way out to the left of this maturity matrix. That's as a result of the need to seed new opportunities, particularly in automotive regions like Asia and North America, to really cover some of the opportunities that'll be lost to us, like the business here in Australia will eventually disappear in the not-too-distant future. Some of the constraints that we're seeing in European automotive growth in the near term.

If you'll also look at the returns that we're generating in the Asian and Aerospace businesses, these kinds of returns on less developed business is quite immature. Obviously right at the front end of what we're trying to pursue there from an organic growth profile. So the returns from capital that we see out of both Aerospace and Pallets Asia will be lower for longer. That's important to keep in mind because that's really where our strategy around acquisitions comes in. See if you then look at our IFCO and our global IBCs businesses, the way we report them at the moment shows that they're delivering a return on capital lower than 12%. That's a threshold that we look for to be BVA positive. That's predominantly because of the goodwill that's associated with both of those acquisitions.

However, if you look at these businesses, the really proven horizon 2 businesses, and on an incremental basis, the new capital invested in these businesses generates returns that are more in line with some of our more mature businesses in the portfolio. That obviously creates significant value enhancement for the overall group as we continue to invest capital in both of those businesses. Although we're paying for goodwill and experiencing short term return on capital dilution with both of those acquisitions. We did that in exchange for certainty on an accelerated path to capturing the addressable market opportunities that prevail in both segments, while avoiding the risks and the immense time lag that's associated with trying to build those positions on an organic basis only. We remain focused on deliver value and enhanced return from both of those acquisitions going forward.

We expect the same to be the case with Ferguson. Once again, we believe it's a very, very strong horizon 2 business where pooling is well accepted within the market and on which the purchase of the goodwill through the acquisition of Ferguson, while dilutive to return on capital in the short term, creates values relative to the organic case, and substantial value, and a considerably lower risk. As I've discussed, the return on capital invested on the business is about 6% today. We continue to feel very good about our ability to deliver in excess of 12% return on capital by FY19. As I said earlier, Jason will take you though some of our near-term value creation opportunities that we are pursuing.

Finally, it's also worthwhile just pointing out our CHEP Catalyst and Chemical Containers business which is on the far right of the maturity matrix. As you can see by the position of the CCC business, it's a very high-returning business that operates in a sector that's relatively highly penetrated. So because of that characteristic, we had a look at that business earlier in the year and decided that ultimately expansion of our footprint in the downstream oil and gas business into the upstream offshore in particular was somewhere that we want to participate. That's ultimately what drove the Ferguson acquisition.

So hopefully that gives you a sense of how we think about the portfolio overall and in particular the role that acquisitions play within that. Before I hand over to Jason, though, are there any other questions on what Tom and I have just spoken about?

James Hall: We've got a couple on the web, but are there any others in the room before we go over to those?

Unidentified Participant: Zlatko, could you just talk about how management incentives are managed or measured against ROIC? So particularly in relation to the '15 guidance is an example where you're saying the underlying terms are ahead but you're going backwards?

James Hall: Yeah, Tom will...

Tom Gorman: Yeah, perhaps I'll touch on that. So look, from a senior management perspective, so everybody here, we really - our financial objectives are based on two fundamental targets. One is around BVA, so that's Brambles Value Added, which is - for most people it's economic value added. Which has obviously a hurdle return, which is the 12% pre-tax return. So in essence it's just - it's very similar to a return on capital objective. So that's the first financial metric. Then the second financial metric is cash flow. So those two are the dominant metrics for each of the team members here. In addition, we have a slight difference. Zlatko and I also have for our incentives profit after tax. The view is there at the corporate level we could have more influence in terms of things like tax rate and interest expense. So we get a PAT metric.

From Jason's business, because his business is an emerging business, that's very focused on revenue growth. There is a revenue growth component to Jason as well. But the rest of us share predominantly BVA and cash flow.

[Cameron McDonald: (Deutsche Bank, Analyst)] Thanks. Zlatko, just how do you, in that slide, in your assessment of acquisitions and the capital deployment, how does the discussion around capital management in lieu of pursuing acquisitions in horizon 2 and 3 opportunities get assessed?

Zlatko Todorcevski: Yeah, great questions, Cameron. So we think about it in terms of, are there value-accretive opportunities, either organic or acquisitive that we can go after and use the cash generation within our business. We don't blindly pursue those. I think we're conscious around making sure that we see good, long term investment opportunities. If we don't see those either in organic or inorganic opportunities, that's where capital management comes to play. But I think it's fair to say that we, at the moment, are not opportunity constrained. We see a lot of opportunities in the portfolio.

John : So just following up on that, obviously you're not going to tell us how you price your own equity, but how does that come into your thinking when you look at a Ferguson, so you know what it earns and you know what you have to pay, against - I'm not saying you should buy back your shares, but what about that concept? How do you compare those two? Is there a formal metric that every acquisition gets compared to a - to buying your own stock with what you know is going to take place as you go forward? Just - it's a theoretical question.

Zlatko Todorcevski: Yeah. The way we are thinking about it, John, is around - we compare every acquisition to what the organic growth scenario would look like. So obviously if you look at our organic businesses that we've generated very, very high return on capital what we try to assess is, can we create value relative to that organic case from an acquisition. In both the Ferguson and the IFCO cases which we looked at more recently, NPV is substantially higher on the acquisitive case than what we could do organically if we were to try to build those businesses.

Tom Gorman: I think the - if I could just answer that. I think that the risk here is that you're looking at this as a mathematical exercise. I think it's far more involved than a mathematical exercise. What we're trying to do is we're trying to bring fundamental intellectual property which we believe we possess in pooling and then combine that with deep knowledge and understanding in the vertical. The two examples that are shown here is obviously the one that we've now been a part of for a longer period of time is the IFCO business. Look, so we were a small bit player in the RPC business. We knew who was the world leader in the RPC business and that was IFCO.

We thought there were things that we could bring to IFCO that would accelerate the growth of that business and accelerate the value creation. So we acquired a business with great vertical knowledge and we brought top that our global pooling expertise. The growth that we've been able to achieve with the IFCO RPC business, in my view, they would not have achieved on their own and we would not have been successful had we gone to build that business organically.

Ferguson, although obviously only in the family now for a couple of months, is exactly the same story. We believe that we have an awful amount of intellectual property that we can bring to Ferguson - which Jason will cover in a moment - but it's that deep vertical knowledge that we don't possess in terms of offshore oil and gas, we think the acquisition here is going to create a lot more value than had we gone about building that business organically. So it is not just a mathematical exercise. You're looking at verticals that are attractive to us for all the financial metrics associated with that vertical but it's a place that we think we can bring real value as well.

James Hall: I might go to one of the questions on the web. From [Nick Markowitz] at Morgan Stanley. It follows on a little bit from Cameron's question. Zlatko, with Ferguson not expected to be BVA accretive until FY19, management have clearly taken a five year-plus view. Should we expect a similar approach to acquisitions going forward? And does this acquisition of Ferguson suggest that there aren't many other higher returning opportunities at present?

Zlatko Todorcevski: Maybe if I take the second part of that question. I don't think you should read anything into that about the lack or what the organic opportunity slate looks like for us. We continue to see a lot of organic opportunities including, as we touched on earlier, innovation opportunities like new platforms and the like. So I wouldn't read anything into that. This is not an either or scenario. I also wouldn't read anything into the timeframe to get to BVA positive. It's going to vary by different opportunities. Look, we paid a multiple for Ferguson that was a little bit higher than multiples we paid on some of the other businesses but that reflects the financial profile and the position that Ferguson's got in the market. We continue to feel very, very good about that.

As Jason will show you in a moment, we feel very, very good about the opportunities that we've got to bring incremental value to that opportunity. So it's not about any lack of opportunities it's about, as Tom said, what we can bring to Ferguson and how we can accelerate the penetration of the addressable market overall.

Tom Gorman: I think the only thing I would add to that is also if you look at the acquisitions that we've made, we've also put more capital into those businesses. So we think that we have great businesses that within those businesses there's an opportunity for us to deploy more capital. We've clearly shown that with IFCO, not only the accelerated growth that we've been driving in North America but the other regional growth that we've been driving. That's more capital going into what we think on the margin is an incredibly strong return. Ferguson is the same exact story. You can see where it sits on this little wave chart here. You can see that in and of itself, it's a very high-returning business.

So if there are opportunities to grow, which we believe there are, deploying Brambles capital through the Ferguson business is going to, on the margin, give us a very, very strong return.

James Hall: One more question from Nick at Morgan Stanley was around the 7% to 9% sales growth range, which was obviously ex-acquisitions. He's saying, with the base business growing at less than 7% in 2014 and in the first quarter of '15, it obviously implies an uplift in growth going forward. How comfortable are we with this and what does management expect will lead it and what contributions do we expect acquisitions to make going forward? So how comfortable with the 7% to 9% going forward and what contribution from acquisition?

Tom Gorman: So look, I think that we remain committed to the top line, high single-digit growth which for us is in that 7% to 9% range. I think when you step back and look at the growth that we're getting today, you have to understand the market environment that we're in, it's still relatively muted in terms of pure organic growth. It's still relatively muted in terms of pricing opportunities. We're delivering broadly in line with where we expected to be in terms of net new wins, particularly in the core business. That's really the pallet business where we have well-established businesses around the world.

So we are delivering what we said we would in terms of net new wins. But the world is still facing some economic headwinds. That is holding us back in terms of pure organic growth and to some degree also pricing. But having said that, we still see the strong - our ability to deliver high single-digit growth, that's what our view is over the coming five years and we haven't stepped away from that. Clearly at the moment we're at the low end, the lower end of that growth range.

I would also just caution you - and I think we tried to touch on this briefly - is that the [comp] period in the first quarter, it's a difficult comp in a way for the pallets business. We had a very strong first half last year. That comp will reverse itself in the second half. So I'd ask you actually to look at it on a smooth basis. So we should have a much stronger second half. In fact, on the RPC side, it works in a little bit the reverse. But given the weighting of the two businesses, it's much more powerful second half, first half for us because of what we anticipate could be the strength of the pallet business in the second half of the year.

James Hall: Any more questions in the room? Okay, there was just one more online from Anthony Moulder at Citi, which was around what we were classifying in the identifiable intangibles, Zlatko?

Zlatko Todorcevski: It's essentially associated with contracts that came with the Ferguson business.

Okay, thanks for that. Hand you over to Jason.

Jason Rabbino: So thanks, Zlatko, and thanks everyone for joining us both here and on the web. As Z and Tom said, what we'll do is we'll spend a few minutes talking about the Ferguson acquisition and specifically about what our strategy is, and why we think we can take what is very much a long-cycle business that's performing quite well and bring Brambles' expertise and capabilities to make that business even better.

At that point, I'll then go over the first quarter trading for the overall containers group, and talk to you about both the organic growth and the acquisition impacts of that. Then after this, we'll actually stop and take questions on the container segment and Ferguson, before turning it over to Pete and Wolfgang.

So with that, on the organic growth side, we see a lot of opportunity in the Ferguson business. I've been very fortunate through both the due diligence process in the now seven weeks since the acquisition, to spend quite a bit of time with the Ferguson leadership team. Both Steven Ferguson and the management team he's built up. We've talked quite a bit about how a company like Brambles can help them accelerate the organic growth rate.   One of the areas that they're most excited about and we think that our expertise in other parts of the business such as Pallecon and CCC add quite a bit of value, is moving from CCUs or offshore containers into a broader fleet of tanks.

Tanks are something where they don't have a lot of historical expertise. They've gotten into the business in approximately the last two years and still relative to some of their large competitors have a very small tank fleet. That's an area in terms of handling and transporting chemicals and hazardous goods where Brambles does have expertise and we also have smart patient capital to invest in building out that portion of the business. We expect to see that portion grow significantly over the coming years and contribute quite a bit to the organic growth rate in all regions of the Ferguson business. A secondary for driving organic growth is the increasing emphasis on DNV certification, which is the industry's highest level of certification worldwide. Ferguson's fleet is essentially 100% DNV compliant and they are really an industry leader in that segment.

As we see the offshore market growing - which I'll come to in a few minutes - throughout the world, particularly in the deep offshore, we see DNV certification becoming more and more a priority for customers. In light of the Deepwater Horizon incident in the Gulf of Mexico and other incidents around the world, the end-use customers, whether they're offshore explorers and drillers, or the service companies who support them, are pushing more and more for the kind of standards that Ferguson provides. Brambles is quite confident with our history of setting standards in other segments that we can help to promote and accelerate the DNV standard that Ferguson applies worldwide.

The third element of the organic growth story is on value-added services. Traditionally, most of the Ferguson businesses come from rental of assets and in some cases manufacturing and sale. There's a whole category of capabilities that we can bring to the table in terms of value-added service around areas such as tank cleaning and maintenance, transport and other areas that Brambles has quite deep expertise in. The Ferguson team is quite excited about this broader range of capabilities, helping them to strengthen their core pooling capabilities but also bring in other assets and other people who can help them accelerate this services part of their business. We think these three areas together will add quite a bit to the organic growth story of Ferguson in the years to come.

The second level of value that we see is on strategic sourcing. For the most part, Ferguson today sources its containers from high-cost normally Western European countries. They had just begun at the time of our diligence process to look at sourcing from lower cost markets and that's an area of expertise where Brambles, through our procurement team, has developed great depth of relationships for both our core pallet and RPC businesses and to a large extent to our containers group as well. We intend to work with the Ferguson team to shift more and more of the procurement to these low cost countries. We'll start seeing in the coming years the flow through of these core assets being purchased at lower prices as well as new assets like tanks and containers being purchased at lower cost and driving both the growth on the top line as well as the benefits falling through to the bottom line.

Another area of Ferguson that we don't talk about as much in a lot of the materials you've seen but is an important growth opportunity, is the manufacturing segment. This is a segment which is a bit more volatile than the core pooling or rental business, and involves manufacturing modules and workspaces for use offshore. This is a segment where we believe that Brambles expertise in lean manufacturing that we've applied in other parts of the business and are beginning to apply to our aerospace business right now, can very much be brought to bear for Ferguson. They have some very good manufacturing capabilities but we've engaged with their team and are actually working right now to redesign some of their manufacturing operations to make them much more price competitive and actually expand the range of things that they can manufacture in a lower cost way.

Then finally when you look at the sourcing overall, some of the suppliers that Ferguson uses or could use are suppliers for other parts of Brambles today. We intend to work with these suppliers and actually leverage the overall Brambles spending footprint to actually deliver a lower cost for our broad business and specifically to Ferguson as well.

The third category is regional diversification. Ferguson has done a very good job on their own diversifying the businesses, such that in their last full fiscal year, which was the calendar year '13, less than 50% of the revenues came from their traditional legacy base of the UK and Norway. We intend to continue accelerating that overseas growth, leveraging the strength that Brambles has in other markets in places such as the Middle East and Latin America, to provide a footprint on which to grow the Ferguson business in new geographies faster than it could organically.

We see opportunities for them in places like the Gulf of Mexico, which is a key offshore market they don't participate in today, as well as significantly expanding very early stage opportunities they have in both East and West Africa. Questions come up in some discussions about consolidation. We will continue to look at opportunities to consolidate smaller players in the industry in regions where they make sense, and add valuations that we think add value to Brambles and to our shareholders.

Then finally, the fourth lever of value creation we see in our strategy is improving their asset utilisation. Ferguson looked at Brambles and saw very clearly our expertise in driving asset utilisation up above the levels that they've historically achieved. We've begun to lay out for them very significant and attractive growth plans in terms of improving their utilisation in the coming years and we will actively track and measure the business on year-on-year performance by asset category. We don't look at Ferguson just as a set of assets, we actually look at each type of asset and we want to make sure there's improvements across each of the asset classes that make up the Ferguson business.

We're also looking at strategic supply agreements. Traditionally a lot of the Ferguson business has been more ad-hoc or spot market rental, outside of the manufacturing business, in some long-term contracts. We think the nature of the long-term contracts can be increased significantly as more global standards such as DNV take hold and more of their customers look for global supplier agreements. Leveraging the Ferguson footprint we have today with expanded regional diversification, we think we can work with more of the end users and have more master service agreements which guarantee for Brambles and for Ferguson a higher overall utilisation of their fleet.

Last but not least is the use of technology. You've heard over the years of Brambles' innovations around asset tracking and tracing throughout our supply chain as well as through the customer base. We intend to bring more of this technology to bear on our core business but it's specifically to bring this technology to bear for Ferguson who actually sees a great benefit from better asset utilisation and management through the use of innovative technology around the world.

Now just turning our attentions back to the offshore market and just to reiterate why we're so excited about this segment over all and where we see the growth coming on an organic basis within the industry. You see on this chart the overall daily production measured in thousands of barrels of oil equivalents per day. You'll see in the grey area, this is a shelf production or the near shore production. This portion of the market is expected to continue growing but to slow its growth in the coming years. Ferguson tends to primarily concentrate in the lower portion of this, the deep-water production or the orange portion of the chart. These are platforms and production facilities further offshore where containerisation is much more a priority. Environmental risks, safety risks all play into the need to have more containerisation in the deep-water. This market which is the one that's growing is the area where Ferguson concentrates and Brambles feels we can bring more value added in terms of the four strategic priorities we talked about on the previous chart.

Okay, now let's turn our attention to the Ferguson Group financial performance. Again, Ferguson up until the acquisition has worked on a calendar year. So all the numbers here you see are reflected in calendar year performance. You'll see over the seven year period reflected here, Ferguson continued to see strong growth and a 12% top line CAGR throughout this shown period right here. Now this reflects growth despite industry downturns and cycles in the volatile overall oil market. So Ferguson brings to us a demonstrated track record of growing despite industry cycles in the industry. You'll also see the start up around calendar year '12 of the investments or accelerating in the business going forward. A number of things happened in this period.

The Ferguson team in 2011 realised they actually needed to strengthen their core business team and began investing in people and [unclear] in their growth in assets in calendar year '11, which significantly picked up in calendar year '12. The headcount that they have in the business from calendar year '11 through the end of calendar year '14 will grow by approximately 50%. The asset fleet has grown by a significant percentage at the same time. This investment in human capital as well as the asset base is going to be key to driving the growth of the business going forward but reflects a recognition by Steven Ferguson and his team going back a couple of years ago that they actually see strengthening the core business and strengthening the talent around that as vital to their success.

Again, as new asset types have come into the industry and we expect that under Brambles' owners, we'll be able to set some more standards in industry practices around additional asset classes, we'll continue this investment in both human capital and importantly in building out the asset fleet. Not just in tanks and containers but a broader range of core CCUs as well. James had mentioned earlier that obviously as you start bringing more assets into the fleet, the depreciation schedule does start picking up as well and you're just beginning to see the wave of depreciation accelerate as you start seeing those investments in 2012, 2013 and notable in 2014, will start impacting the overall business.

We think these investments are fundamental to driving growth in core business as well as innovating in new capabilities and technologies around the world. Overall, we're actually quite pleased with the history financial performance of Ferguson. However, we actually think that the investments that Brambles will make going forward, as well as the talent we'll bring to the table, will help them significantly both in terms of managing their capital even more effectively as well as finding the right areas to invest in. In fact, one of the key things we've done as an early part of integration is actually to bring in a gentleman named Laurent Letestu who some of you have met over the years. Laurent was previously the CFO for the CHEP business in France and most recently has been the CFO for the CHEP business throughout Asia.

Laurent brings a wealth of experience from across Brambles and CHEP to the Ferguson Group and will actually be joining the next week as their CFO moving forward. We think that bringing that type of capability on the ground to Ferguson in addition to our strategic sourcing efforts, our asset utilisation efforts as well as our health, safety and quality experience, will actually help up to achieve all of our goals for Ferguson in the coming years.

So with that, let me turn over to the containers performance which Tom and Zlatko talked about previously.

You see here our first quarter performance by industry segment. As we've talked in recent times, we've now organised the business much more clearly around four industry segments. Our automotive business, our Pallecon Solutions or IBC business, CHEP Aerospace and our oil and gas segment which is obviously significantly expanded with the acquisition of Ferguson. I'll walk through each of these four briefly and touch on some key points that are driving the growth performance here.

Overall, the 19% performance in terms of growth is an attractive number, however, in the first quarter - and again, remember, this is a very long cycle business with slow decision making in certain customer segments - but in the first quarter, we did not achieve all of our expected organic growth targets and wound up at about a 2% organic growth level for the group. Now I think it's important to understand what drives organic growth as well as what creates headwinds on a segment by segment basis. So let me walk you through that in a bit more detail.

Our automotive segment which is the largest segment within the containers group actually saw a 1% organic growth in the first quarter. That reflects a number of key issues currently facing the business in some of our largest and most mature markets. I think most of you are aware very much of the contraction and really the end of the automotive manufacturing sector for most of the Australian market. Now automotive for us represents in Australia about 9% of the overall automotive sector. So to offset the decline in the local manufacturing segment here requires quite a bit of growth in the other parts of the business to offset that. That trend will only increase in the next several years as the manufacturing industry in Australia continues to decline.

Our asset fleet within Australia, however, is almost full depreciated and we do see good opportunities to put those asset to use in other markets and with other customer segments. So we see no issues with the asset fleet as that segment here goes away. We will continue to focus on imports coming into Australia as well as outbound exports of parts and components to other markets at the same time.

Now our largest segment within automotive is our European based business. As most of you are aware, the European industry continues to face overall economic headwinds as well as political headwinds most notably coming out of Russia. Germany in the recent quarter has experienced contractions in some of their industrial growth metrics. Those have continued to impact automotive production within the entire [MA] economy. Now the Russian business, which today represents a relatively small portion of the CHEP Automotive business, was expected to be a key growth drive for us in FY15. Obviously given current political and economic developments in that market, that market is currently moving quite backwards for us. Many of our manufacturers in Russia have seen between 25% and 40% falloffs in their production demands and the consumer demand from automotive is actually down significant across the entire Russian economy. That's not expected to pick up in the near term and we have decided to be patient, not invest further at the Russian market at this time, and wait for the industry to recover, which we believe is dependent largely on both economic and political factors well outside our control.

Then finally in our South African business, which is our third major segment of our mature automotive segment. Our South Africa has recently gone through a number industrial actions focused primarily on the steel and manufacturing industries. Those have had knock-on effects in terms of slowing down automotive component production and then secondarily automotive manufacturing as well. We do think that the economic impacts of industrial action are going to be relatively short to medium term, however, as with all of our markets, we have decided to modulate our activity and our expectations for South Africa while the market stabilises a bit in the coming months.

Now all this being said, we've actually seen very attractive performance in some of our key growth markets, most notably India, China and North America. We'll share more with you in the future at the half year and the full year results but suffice to say that our investments in these markets, as Zlatko touched on, have begun to pay very good dividends. We do like what we're seeing in these markets, however, they are still quite small, they're at the far end of that chart that Zlatko showed you and it will take some time for those to offset headwinds that we sometimes face in our mature markets.

Turning our attention to our Pallecon solutions IBC business, you see a 24% growth rate, which reflects a mix of good organic growth across North America, Europe and Asia Pacific, as well as the Transpac acquisition impact as well. All through of our established regions have actually delivered quite good growth for us in Q1. This is despite the fact that one of our major initiatives for FY15 which is the introduction of the Iconic, which is a next generation IBC platform, has actually been delayed by our supplier for approximately two quarters. Some of you have heard us talk about the Iconic before. We believe very strongly this is a fundamental revolution in terms of technology, delivering a much higher empty return footprint for our customers and allowing us to actually deliver a much safer, more operationally efficient asset.

We initially expected the Iconic to come online in the first quarter of FY15. We'll actually now be going into customer trials in the second quarter of this year and getting revenue generation from Iconic in Q3 and Q4 timeframe. We're still quite excited about this platform but we're very much committed to making sure we've got the highest quality assets that solve our customer problems and we're happy to wait a couple of additional quarters to see the revenue from Iconic going forward.

The third segment is the CHEP Aerospace Solutions group. Again, 17% growth in the first quarter. But that's really primarily a result of the Airworld acquisition, which is our [unclear] operation service Heathrow Airport. Airworld has performed quite well for us and has very much justified our investment in this business.

However, the core aerospace business has actually not delivered at the same level we were hoping for in Q1. Again, this is a very long cycle industry at the far end of the curve, an H3 business for us. Because of that, decisions are made on a timeframe that doesn't always match our quarterly financial projections. Now in this quarter, we've actually seen a very good amount of forward-looking momentum. Most of you are aware we were awarded the business from Cathay Pacific at the end of FY14. That business will actually kick in in the last second half of this year.

Cathay Pacific is a great testament to the perseverance of our team as well as what we think is the value proposition of pooling which takes a long time for certain industries, particularly risk-averse industries who don't have a history of pooling to absorb, but a world-class operator like Cathay joining the other leading companies that we service in aerospace is a very good testament to the fact that with perseverance and a great value proposition, we can convert new industries over time. Additionally in the first quarter, we won new MRO business with both Singapore as well as Air France. Both of those pieces of business are just in the planning and launch phases right now. Again, much like the Cathay business, will actually kick up in the mid-third quarter to early fourth quarter of next year. So these are both - these are all three pieces of business we're quite excited about and will be very material to our business going forward. But in the near term, obviously, don't contribute to our Q1 impact.

Then last but not least, our oil and gas business. Obviously Ferguson joined us as of 1 September and that drives the growth that you see here. Our CHEP CCC business, which Zlatko showed you delivers exceptionally attractive returns for our company, is as we've talked in other sessions very much a cyclical business. CCC had a very strong performance year in our FY14 and by the nature of the cycle, so the 600 refineries that we have the potential to server around the world, we would naturally expect and are seeing a relatively slow start to FY15. This is compounded a bit by delay in the launch of our new innovation for the CCC market, which is a product called the X1. The X1 is a one-way container designed to address a portion of the market that for the reasons of cost or dwell time does not have a need or the ability to use a returnable solution.

The X1 is being supplied to us by a third party which was expecting to get regulatory approval from the US Department of Transportation in the latter part of our FY14, allowing us to launch the X1 at the beginning of FY15. That regulatory review is delayed approximately six months. It actually has been received at this point and our supplier is to begin manufacturing but the X1 will actually enter our solutions portfolio in the latter half of FY15. So in conclusion, overall it's actually been a challenging first quarter, but we look at the business very much in terms of a long horizon. We've actually seen quite a few developments in Q1 that in the latter half this year, as we've talked about, will actually begin to pay very attractive growth dividends for us. Combined with the addition of Ferguson and a strong integration plan, we remain very much convinced that our growth projections for FY15 will be realised at the course of the year.

With that, we stop and open it up for questions.

James Hall: Questions in the room, please?

[Unidentified Participant]: Jas, can you talk a bit about the organic growth expectations you've got built into the ROIC targets you've got for Ferguson? And the extent to which $100 oil price environment versus an $80 oil price environment plays to that? How much do you expect to grow with the market versus winning new business?

Jason Rabbino: We've had a lot of conversations internally and also with the Ferguson team since the acquisition in terms of what impact oil price does have on them. In general, if you look at their historic performance, while oil price is not an unimportant factor, one of the things that we like about the offshore segment, particularly the deep offshore, is that it's actually not overly sensitive to the oil price. Again, not to minimise the fact it does have an impact, but the containers that Ferguson supplies are actually used throughout the entire lifecycle of a production facility. So during the exploration phase, the start-up, the production and the decommissioning. So as oil price fluctuates up and down, our containers tend to be sitting offshore, we're generating daily higher revenue on those. Even if a production rig is put into either mothballs or slowdown, the container actually generates higher there.

In most cases, it's actually very cost-inefficient for a customer to return a container to Ferguson during an industry dip. So the containers tend to stay on hire because the return fee is actually quite high in many cases. So we actually think and history proves that despite oil price movements, this business is actually quite stable.

James Hall: Any more in the room? We do have one online from Scott Ryall at CLSA. This is a fairly lengthy question but I'll - hopefully it'll be relatively clear. But it's around the walk from current return on capital in Ferguson of 6% today to the BVA positive level in FY19 that Zlatko outlined. Scott's saying, if we assume growth CapEx to achieve the same returns as the returns ex-goodwill shown on slide 8, you would almost need to double the net asset base to achieve this. This would appear to be a huge growth, so what am I missing?

Jason Rabbino: Okay. Well I'll start and then I'll maybe turn over to Zlatko for some additional points. So yeah, as I said earlier and I think Zlatko and Tom both echoed this, we're very much committed to investing in this business. So we actually do see quite a bit of good growth ahead both in terms of assets that we used in the core business we have today, meaning the core geographies and the core asset classes, as well as continuing to invest in these assets such as tanks and containers, as well as like we talked about, the geographic diversification. We see quite a bit of upside in this business. Not only in terms of just overall financial performance but in terms of what the business can be.

We do think there's some consolidation opportunities but we think Ferguson is very much built around a growth story. If you look at their history, they've accomplished a great deal of growth, managed as a small - relatively small, family held company. We think under Brambles ownership, with our prudent focus on investing capital, we can put quite a bit of useful capital to work and continue to move us along in the curve towards a very attractive ROIC in the FY19 timeframe. Z?

Zlatko Todorcevski: I'd just support what Jason said. So part of the equation is exactly as Scott outlined. So it is about growth and it's about realising on organic growth opportunity as well as geographic expansion that

Jason alluded to. It's also about delivering additional incremental value beyond that as well. So think about how we procure these assets. The opportunity there is not insignificant, as well as the asset efficiency piece. So it's not purely about growth. I'd think about how we'd better run the business than it might have been able to be run in the past.

James Hall: One more there at the front.

[John]: So can you give us a bit of a breakdown, just a bit more granularity on how you get to that target and how much growth is required? Because obviously you're talking about deep-water projects, they're higher risk. A lower oil price will be detrimental to final investment decision on those growth projects. I don't know what the oil price is going to be in - tomorrow or the next week or what have you, however, the best guess is what it is today, I guess, and that's lower than it was when you made the acquisition and when you were contemplating the acquisition. So you'd have to think that at the margin, projects are less likely to be sanctioned. So how much is likely to be - how much are you looking for from growth into new projects and that growth rate offshore, you need a higher oil price for that?

Jason Rabbino: Yeah, so a couple of responses to that. so in terms of the offshore growth, we actually think that despite the current oil prices, plus or minus a few percentage, the actual deep-water projections that most of the industry utilises are not going to change dramatically. Many of these projects are actually long-planned projects. What you may see is some of the very forward-looking or out-year projects may be delayed. But as you say, we actually can't predict the oil price so we don't think that there's near term concerns about that.

But I think it's very important to realise that in both the core business we have today as well as the markets that we're looking to expand in, the broader range of both services and assets we can bring to bear, are quite attractive. So whether it's onshore or existing deep-water production today, we have a relatively narrow range of containers we provide, again, mostly traditional CCUs and some mud skips which were used for moving contaminated mud offshore. We have a very small tank and container fleet. So just in the current footprint we serve today, we actually think those additional asset classes can add a huge amount of value in driving a significant portion of the growth.

You also do see the customers that we serve in certain regions or in certain asset classes today, these are people such as the Schlumbergers, the Halliburton, the Totals, the Exxonmobils. They're very actively seeking us out today and saying, if you had this broader range of asset classes, if you actually had assets in this part of the world, we'd be very interested in talking to you about a global master services or what's called a frame agreement in the sector. So again, not to minimise the importance of the deep water growth, we think that is a key driver, that actually is now what our business case is predicated upon.

Tom Gorman: So maybe if I could just add, just to summarise and maybe bring home on this point that Scott and both John have raised. First of all, I think just to understand where we are today, so this really is about a top line story here and now we're getting into cost structure and other things which will become much more obvious in February when we have actually earnings statement to go along with this and then again in August. So it's not to try to avoid the issue but today is really about a market update, not so much a deep dive in terms of actual finance performance. But you'll get that in the months ahead. So we're not trying to dodge the issue.

I think when you look at what's happening here, I think that for me it breaks into three fundamental components. The acquisition itself, the asset base of that core acquisition, because of the amortisation of intangibles, will actually shrink over time. You can see this very much with IFCO, which we've talked about very clearly. If you look at the IFCO acquisition, the US$21 million a year that gets amortised for intangibles on IFCO, that gets halved in '16 and goes away entirely in '22. So you will see the continuing shrinkage of the base that we acquire. So that's the first thing.

The second thing is, the growth in additional assets, which Jason's alluded to quite well, all of the opportunities there come at a very high incremental return on capital. So you're actually accelerating the return on capital there. Then thirdly, the point I started with is that we think that we can bring some things here which actually will strengthen the margins and lead to some margin expansion, particularly around procurement and a couple of the other initiatives Jason touched on. I think you'll be able to see more of that, John, when we come to February and then, again, in August. So the combination of great growth at higher returns, that actual base is going to be shrinking because of the amortisation of intangibles and then also our focus on very strong financial performance with the opportunity to expand margins. So I think you put that together and that's what allows us to go from a 6% to a 12% return. By the way, if you look at that roughly 600 basis points on what is about 8% - 7% or 8% of total revenue when you get out there that's more than - just that little component is almost 60 basis points of contribution to the total growth story. So it is a fairly positive story even though it's a relatively small component of the total revenue.

John: Okay, here.

Unidentified Participant: Jason, just a question on your comment around Exxon and Halliburton et cetera, are they the clients that you'll be able to leverage into the Gulf of Mexico given your comment that they're not - Ferguson is not in the Gulf of Mexico at the moment?

Then secondly, what relationships do Ferguson have, or that you can bring, particularly in Brazil?

Jason Rabbino: Sure. So in terms of the Gulf of Mexico obviously an attractive growth region for the industry overall and for Ferguson. We do think that working with our global partners - again, those are examples of the people we work with in other parts of the world. Brambles in general has been very successful in using customer relationships across all three of our platforms to go from one geography to another. So we do think we'll have more confidence going into the Gulf of Mexico with a partner such as one of the end users we've talked about or that you see in the Ferguson Group. So we are very much concentrated on finding customers who want us there and then working with them.

We do have assets in other parts of the world that we technically could deploy there and try to build the business off that but we do think investing in greenfield on the base of a customer makes a lot more sense to us. So that's really our priority in the near term.

In terms of specific timing by the way, right now we want to actually stabilise the core business. We've actually locked down the management team; they're very excited about working with us. So we're not going to put a specific timeframe on the Gulf of Mexico, we'll actually watch what the customer demand is and, again, we'll trade off - we feel there's only so many things we want to tackle at once. So leaning out the manufacturing, shifting our sourcing overseas and bringing in new asset classes is really priority number one. Geographic diversification in some cases may be opportunistic but in other cases through discussions with customers will actually move at a time and a pace that the customer demand pulls us into those new markets.

Tom Gorman: Look, I would just add one more emphasis to that. I mean if you look at our history of acquisitions now over the last five years I think what Brambles has exhibited here is quite a unique skill of bringing companies into our family of businesses. Every company that we've acquired has either been from private ownership or from private equity. They tended to be relatively small. They all were at a cycle where additional capital employed on their behalf really helped grow the business extensively. But I think we have developed a bit of a skill here to bring these companies in, in a way that doesn't destroy the essence of what they are and yet builds and brings to them what Brambles can bring. So if we miss a quarter of growth I'm not worried about that. We didn't buy this for the next quarter, the next year or the next three years. We are trying to build a strong business in the oil and gas vertical.

So what we're going to do is to make sure that the Ferguson team gets integrated properly, that we bring to them the benefits that we can bring corporately and that we put together a plan that's executable for the long-term competitive advantage of the business.

So this is now something that we're going to fret over one quarter, this is really about the long term and getting on the right trajectory. We think we bought a great business, we think Steven Ferguson has built a great business, but we have to make sure as we on board the management team that we're bringing that value to them rather than pressuring them for the next quarter's worth of results.

Jason Rabbino: Yes. Just to the second part of your question about Brazil, you'll notice when we actually highlighted our strategic levers one market we didn't specifically call out in that was Brazil. Given what we've seen as some of the uncertainties in the last few months and, obviously, some of the responses to the recent elections there we think Brazil's medium to long term prospects - and obviously Petrobras has very strong plans for growth, we very much believe in those. We think in the near term, however, Brazil is not a top priority for us. Again, if the economic and political situation stabilises and we see a change in direction or if we have very specific customer demand for us to go there we're certainly willing to consider that. But going to Brazil in the near term is probably not a top priority given attractive ways to spend our capital and time in other places in the world.

James Hall: We did have one follow up question there on the web about Brazil which is around to what extent we'd approach potential partners given the local content requirement in that market but I think, Jason, the answer you just gave probably means that that question's not especially pertinent at this point, unless you have anything to add?

Jason Rabbino: No, I think if and when Brazil comes back on the priority screen we'll revisit sourcing.

James Hall: Okay. We do have one on West Africa as well, sorry, to a similar theme here, given that we don't have presence there how do we think we'll gain market share in that region?

Jason Rabbino: Yes, so West Africa's actually a region where we actually do some business today within Ferguson. We tend to do it through local partners. So we do have a number of assets in the West African region. They tend to be much smaller. We've talked about some of our key partners in places like Ghana and Trinidad, the asset base in West Africa is much more small bits and pieces here and there, a few units here and there.

It's a market where there is quite a bit of opportunity going forward. That's one of the places we might look at a regional consolidation play if and when an opportunity presents itself to us. Otherwise we'll actually look for additional partners over time who we think actually will be much more material. For Ferguson a material partner tends to be someone who's putting 500 plus units to work for us but right now some of the partners we have in that area tend to work in the scale of a couple of dozen units. So we'll look for that type of partnership going forward.

Tom Gorman: Look, the only other comment I would make on West Africa is we have, as a leadership team, spent a fair bit of time studying the African continent. The next step for us - again, this is not the next quarter or even the next year - but we think we have some real intellectual property on the African continent as it stands today and we have a clear view that West Africa is an opportunity for us, particularly Nigeria and particularly with some very strong FMCG customers. So that's something that sits in front of us as well. If we can tie that in to multiple business units as we think about the future in Africa I think that only strengthens our hand as a company in total.

Jason Rabbino: Yes, I think that's the kind of thing that we actually see the Ferguson team appreciating. To Tom's point, the Ferguson team proactively reached out and said can we actually speak to the CHEP team is South Africa. So Ferguson and [Uri's] team in South Africa are working together and helping Ferguson to figure out their overall African strategy as part of the broader Brambles' footprint there.

James Hall: Sorry, we've suddenly been peppered with questions online. So one final one on containers more broadly and the contribution of acquisitions and their role. The question being clearly we're talking about future ROCE growth moving towards [BBA positive] in Ferguson, the question again that Scott Ryall at CLSA was asking of the other acquisitions made in containers to date, so obviously the aerospace space acquisitions and CAPS, which of those have we seen that positive move to date in ROCE [unclear]?

Jason Rabbino: Sure. So I mean the IBC business, which was Pallecon and now Transpac is a business where as Tom mentioned in terms of Ferguson we are businesses where the incremental return on investor capital is quite high. Every additional dollar we're putting back into those businesses delivers a very attractive return for us and one that we're quite happy with.

Unique characteristics of those compared to something like aerospace for example is that the IBC businesses we acquired were actually well established businesses in markets that actually had a reasonably solid history of appreciating pooling. We tend to differentiate those from a true [H3] business such as aerospace where we actually went into a business where a pooling market didn't exist. There was not a well-established asset base, so we've been investing quite heavily to bring ULDs, both containers and pallets, into our fleet and establish an industry where for all intents and purposes there was not a pooling industry.

Again, we think we can deliver attractive returns on both of those types of segments. However - and we've talked quite a bit about aerospace in the past, including at the December IMB, that's a segment we're very closely tracking against number performance metrics. We do see wins like Cathay Pacific most notably, as well as [AMRO] wins like Singapore and Air France reaffirming some elements of that. But it is a business which is a very long cycle business in terms of delivering, as you'd expect from an H3 category business, the appropriate returns, if it doesn't continue to progress along that timeline at appropriate points we'll make strategic choices, but we're not at the point where we think we have concerns on that today.

James Hall: Great. Let's move on.

Jason Rabbino: Great, thanks very much. Let me turn it over to Wolfgang to talk a bit about our RPC business.

Wolfgang Orgeldinger: Thanks very much Jason and good afternoon everybody. I will begin by giving a little bit more colour around the sales revenue performance in the RPC segment in the first quarter. Let's start with the European region which was, again, very solid despite a challenging economic environment. Sales revenues of $149 million reflected a growth of 8% or 9% in constant currency.

The biggest drivers of growth are the UK, Germany and France where increased penetration with existing retail partners and new wins are driving the growth.

We're also seeing very strong growth rates in countries such as Turkey and the Balkan states as we expand further eastwards.

In North America the growth rate of 12% to sales revenue of $50 million reflects continued improving momentum with conversions primarily with existing retailers. I will go into this business in much more detail later on.

South America continues the strong momentum of the second half of 2014, showing sales revenue growth in the quarter of 35%, reflecting growth in Brazil and Argentina. We continue to investigate both acquisitions and organic opportunities to add to our presence in new countries in this region.

In total, growth in the IFCO businesses was 10% to $205 million and the CHEP RPCs operations in Australia, New Zealand and South Africa continue to report into Peter's organisation but with strong and growing collaboration with IFCO.

Growth remains strong in these businesses at 10%, reflecting the conversions with a number of key retailers and new products co-developed with IFCO, such as the banana crate, to be launched by CHEP Australia, will support further growth.

As Tom explained at the full year results we are expecting continued strong sales growth and a return to profit growth in the RPC business in fiscal year '15.

I will now talk a little bit more about our progress in North America. Those of you who attended my presentation from Sydney last December will recall that we set out three key focus areas and nine mitigating actions. I am pleased to say that our North American RPC team, under the leadership of Dan Walsh, whom we appointed last year, about a year ago, has made very good progress in implementing these mitigating actions.

The first focus area was to solidify our value proposition. Key mitigating actions are rolling out an end-to-end supply chain to evaluation tool, driving conversion through improved retail stakeholder alignment and collaborating better with growers.

We are well advanced with the roll out of the evaluation tool, collaborating with two key retailers in the US to collect data in their distribution centres and have begun additional testing at the California Polytechnic State University. We expect to complete the study this quarter then leverage our European experience to take the results to market.

Improving retail stakeholder alignment is also progressing well under rebuilt retail commercial team, which has recently appointed a new vice president of retail sales, Greg Kurkjian, with deep product experience at two very large North American fresh produce producers.

All major retail accounts have now been staffed with directors and account managers and our strategy from here is to engage more effectively at both the senior executive as well as the buyer level.

We're seeing conversions of new commodities at a number of our existing retailers, for example in avocados at two major American retailers and apples and soft vegetables at a major Canadian retailer. New retail conversions also continue to contribute.

The names of the growers participating in our [unclear] program are confidential but also this mitigating action is progressing.

The second focus area was to refine our strategy by utilising innovative merchandising solutions, balancing our commodity portfolio more effectively and increasing our focus on year round and counter seasonal items.

On the merchandising front our trade market, fresh market advantage program is allowing us to partner with retailers, growers and industry groups such as the Mexican Avocado Commission, to utilise customised [unclear] for promotions and branding as well as facilitate in store use of RPCs to reconfigure layouts as retailers move to smaller store formats.

Our wheeled fresh framed product, also trademarked, provides a wooden look to easy to move modular units into which RPCs can be stacked, and from which produce can be sold.

The rebalancing of the commodity portfolio and increased focus on contra seasonal and year-round items is best reflected in the fact that we are driving conversions in mushrooms, lettuce and hot house tomatoes and we also continue to develop contra seasonal business in chillies, expanding our grape program and adding citrus for one of our key retailers.

We are formulating a new strategy for Mexico, focused on continuing our growth in the region as production for key commodities shifts from California to Mexico.

This leads me to the third focus area where we're driving successful execution, focusing on the provision of enhanced conversion management assistance to retailers, increased warehouse audits and the staggered implementation of single commodities.

Our commodity management team was established and staffed during the first quarter with the aim of ensuring structured roll out of retail conversions, supplemented by auditing to ensure compliance.

While we have added new commodities and new retailers in the first quarters we have deferred some to ensure we can manage them effectively.

As part of the introduction of commodity management we have consolidated our audit team and reorganised our approach. Audits will be transmitted automatically to our commercial teams who are able to track [unclear] compliance with retailer preference and take focus actions.

So with this I'm at the end and I'm happy to take any questions you may have.

James Hall: I've got one question on the web, but is there anything in the room before we go to that? So the one question online just relates to the proportion of growth that you see coming from new retailers as opposed to conversion within existing retailers. The question's specific to North America but I don't know whether it might be worth expanding more broadly as well into the rest of the business as well.

Wolfgang Orgeldinger: Our strategy is that we will focus actually on further penetration with existing retail partners and that's simply for the fact that we have all major large American retailers already signed up for the RPC program. For that reason we have the highest growth opportunity within these large retailers.

Having said that, we will not stop to work also on other retailers who are not yet RPC users. But the majority of the growth is expected in North America to actually come from existing retailers.

In Europe broadly saying it's a similar picture. There we have a much larger retail base already. There are, however, still some accounts out there who are using corrugated so far and, of course, there are accounts who are using competitor products, and we will go for both. But, again, the majority will come from higher penetrations in Europe, also from higher penetrations by new applications such as eggs or meat.

Tom Gorman: I mean I just might add one thing to that. I mean it's probably now almost a year ago Wolfgang when we spent - when Wolfgang came into the new role as President of the RPC Group. We really took a deeper dive into the business and I think some of you might recall this conversation, when we looked at the US business, in particular the North American RPC business, we had great growth historically and it was really coming from adding incremental retailers. I think the thing that we missed to some degree was the fact that we weren't growing the penetration within the retailers.

So we had a team that I think was well structured to build the business to roughly $200 million. If we want to double that business we had to structure that business quite differently - a real credit to Wolfgang and Dan's leadership on that front, and then refocus the team on what in some ways is a bit more challenging really. I think winning a retailer you get this very lumpy growth, so it kind of hides some of the slowing in penetration. I think the team's done really a heck of a great job over the last now six to nine months of diving into that set of analyses and I think we now have the right organisational structure and the right people that should be able to expand. We still have significant growth opportunity with every one of our retailers to cover a whole series of produce categories. So I think what you should expect from us in the near term is continuing focus on penetration as opposed to just adding on smaller retailers.

James Hall: We've just got one more coming through here, sorry. So this is - not displaying. Are you seeing the pace of adoption with existing customers getting faster for new product lines? Also are you finding that the time to sign new - so two questions here - are we accelerating the pace of adoption with existing customers as we bring new product lines on? And are we finding it that we're signing new retailers faster as well? It's a sales lead-time question.

Wolfgang Orgeldinger: Yes, exactly. We have just put a new organisation in place. I just touched on this. So we are seeing the first results of that but I think there's more to get in future, so we will see the acceleration rather in the upcoming years. When it comes to signing up of new retailers there is really no acceleration. We are working on this as we always did.

James Hall: I think we've got one just here.

Unidentified Participant: Yes, Wolfgang, you've mentioned UK as a driver of growth in Europe, can you touch on the market share challenges going on in the grocery sector there? It's pretty well publicised that some of your compatriots, Lidl and ALDI, are doing very well at Tesco's expense. Is that of benefit to your business? How do you think of that market?

Wolfgang Orgeldinger: It doesn't yet benefit our business but we have made progress in the UK by adding a large retailer who up to the point when we signed a contract with them was running their own pool, which was the Co-op. So that was a big contributor to that growth. We are also growing with our other retail partners which we have in the UK. So I should say as we don't service Tesco we are not impacted in any way from the development there. We are very well positioned in the UK and the addition of the Co-op really drove the majority of our growth.

Unidentified Participant: I realise this one isn't directly under your management, but in Australia Coles is presumably still the main prize. Any progress - hope of that in any time frame soon?

Wolfgang Orgeldinger: I think I'll direct this to Peter.

Peter Mackie: I might talk about that one more generally I think might be the best way to answer that. Our very strong view is that there's a lot of value in the recycle and reuse of our equipment. There's even more value in the sharing of that equipment across multiple senders and multiple receivers. So in the RPC business there's a huge overlap in terms of the multiple senders, so sharing the same assets for multiple retailers makes a huge amount of sense for everybody. So it creates value for everybody concerned. We have that conversation all the time and eventually I think we'll make some progress there.

I think the one thing that's been very good actually with a combination of the IFCO business and the CHEP business here in the region actually is the sharing of some of the new crate designs that have come from the IFCO team. We've been deploying those very successfully in New Zealand and hope to extend that actually across the whole region. But yes, it's an opportunity for everybody in the supply chain if we can share those assets, for sure.

James Hall: Great. Well with that if there are no more questions in the room, Peter, please continue.

Peter Mackie: Good afternoon, thanks everybody for coming. Now I only have three slides to talk about today, so I'll do a very - a slide on the top line performance in the quarter and then two slides very specifically on the US. So one on the ongoing operational improvements in the US and then the second one, just a bit of an update on the growth projects that Kim Rumph who leads the US business really talked about at the IMB in December. But I'm more than happy to take questions at the end of this on all aspects of the CHEP pallets business overall.

So if we move on to the first slide here. Look, what I would say here, I think in the developed markets for the pallets business around the world this represents actually a really solid performance for those businesses in what is an uncertain economic environment in many of those markets. But really, as Tom alluded to, actually quite a tough comp in the first quarter, especially in the US and Europe and we expect to see those tough comps continue also into the second quarter. But as many of you will remember, the storms in the US in the third quarter last year actually do represent an opportunity for us to accelerate.

So this solid performance in the developed market has really built off good net new wins and as the comps get a bit easier as we move into the second half we expect to see that continue through for the pallets business. So I think in the developed markets solid performance.

In the emerging markets for the pallet business it's been challenging in really three countries, really from an economic and political uncertainty perspective. So in Mexico, Brazil and South Africa, although we call them developing markets we actually have quite substantial and successful businesses in those markets. So the economic uncertainty in those markets has subdued the growth a little bit. Now the good news in those markets is that we have, still, plenty of white space to go after. So the focus of those teams for the balance of the year really is a penetration of the white space in those markets.

Now we have, to some degree, also been hit in Mexico by just a very extended rainy season in the Mexican business. So that's hit the top line but it's also meant we've been moving lots of pallets around and drying lots of pallets around in this extending period. So there's a challenge on the Latin America business as a whole to find cost savings to offset a tough quarter really from the weather in the Mexico period.

Now on Asia, as we've talked about before the Asian business really, one, is making sure that we focus the growth on those areas where we think are going to accelerate palletise flows, especially in the China business. That's been a strong focus of ours now really for the last 12 to 18 months. So it's encouraging to see - I mean this - in the same period last year we saw about a 10% growth and we're seeing a slight tick up here in Asia with a focus more on getting palletised flows going in the Asian market.

But overall, I would say solid performance. Some good performance in net new wins. As the comparators, as we move through into the second half get a little easier, we expect to see the growth performance in the second half also improve.

I think probably the other point worth making here - I got asked before we started about progress on SMEs. So we still see really good progress on SMEs, especially in the US business. But one of the other strong trends that we're beginning to see in the business now is much more work with our global accounts. Unilever, I think, is a good example of that and one I can talk to where we're working with them in many countries around the world on joint cost saving initiatives for both businesses and also joint growth business for both of the businesses around the world. So we're making some good progress with a number of our global accounts in many countries around the world, both in developed markets where the focus is mainly joint cost out and then in some of the emerging markets where we're also driving growth.

So if we move onto the next slide. So this is the first of the US slides. We might go straight - rather than do the build here we might just go straight to the main slide. I think what I would say about the US business - I've been in the Company now coming up for 13 years but this is the strongest the US business has been. So we're down to a small number of new pallet commitments and by the end of FY'15 we'll be out of the new pallet commitments in the US business. We've had a significant improvement in asset control over the last few years also in the US business. Then really as a consequence of putting less new pallets in and the growth that's gone on - so the iGPS win backs, the SMEs and some of the medium to large accounts in the US, that we've actually got much better utilisation out of the pool that we've had in prior years.

Now as we talked about at the full year we've been trading some short-term margin there to get the capital efficiency out of that greater utilisation. But I do think it's important to point out here that we keep a very strong focus on the compliance to our quality standards. In fact, we report out to the Board on the quality standards on a monthly basis.

So the focus of the US team really is how do we drive efficiencies - so any cost that goes in through improved utilisations, how do we drive efficiencies to offset that? Also what won't be missed by many of you in this sector is we're seeing significant inflation in transport in the US. So real constraints on capacity and also on driver supply in the US market. So lots of focus in the US business on short-term efficiency programs as we are doing really around the world.

Moving forwards, however, in the US we want to strengthen this good position that we've got on utilisation by improving the durability of the pallet. So really as we work our way through this financial year our plans on improving durability will come to fruition and we will begin to get an understanding of how can we get to this strong position of utilisation actually with improved margins from where we sit today. So that's going to be the big focus for the durability project for the longer term of the US business now we've got to this better position of utilisation.

So if we move to the second slide on the US which was around growth. Look, the key aspect regardless of whether it's a new platform actually or a new sector in our business is to get profitable growth in this business. Number one really is to demonstrate value to the retailer. So demonstrate whatever you're doing here that there's value for the retailer. Really in order to get agreement to the controls that need to be put in place to make the assets turn efficiently without being lost. Then also to get agreement with the retailers that enables coverage to actually make it effective and efficient for the manufacturers to ship into those retailers.

So across all of the efforts of new initiatives in the US we've been very focused on the retailers in each of these segments, showing then the value of the change and then also getting agreements on the control of the assets.

So on the half pallet side the real progress that we're making is with the retailers in the US. So we now have 11 agreements in place with retailers in the US, representing slightly more than 50% by volume of the US market. Now with that kind of coverage we're able to start engaging with manufacturers.

But in this space of the half pallet the real retailer value is very strong. So the half pallets are around promoting product, products on promotion, driving more efficiency and effectiveness in products on promotion. Then the second piece is around really efficiency in replenishment in store. So moving products direct to the shelf on a half pallet rather than having store labour cost apply to taking goods out of casings and direct onto the shelf.

So for the retailer here we're demonstrating through pilots that there's both efficiency effectiveness and sales growth about moving to this platform. But our goal at the moment is to make sure we have strong coverage, strong agreement for controls before we start flowing manufacturers into any of these retailers on any scale, albeit we're running pilots for the time being. But good progress there in getting coverage and getting agreement to controls for the new half pallet launch in the US.

Then also strong progress in the auto aftermarket. We've been doing a similar thing with one national retailer in the auto aftermarket sector in the US, demonstrating clear value to them. Given their footprint we believe there's enough coverage now to get some of the key manufacturers into that national retailer going on the aftermarket sector.

On these other two we've probably given ourselves a bit of a hard mark here in a sense that with respect of pallet pooling we're still a way from getting that going in these two sectors, but actually we have been growing quite significantly in the white wood, recycling business. So the strategy here has been get control of the white wood recycling, get access to the [cores]. Spend more time on site at these retailers, helping the retailers get some efficiency out of white wood recycling and then begin to identify those segments that are better off on white wood recycling and those that are better off on a pooled CHEP blue pallet in this network.

So good progress on getting an understanding of both of the verticals and getting the penetration of recycle in here. Really the next phase of this is then identifying those segments where we can get blue-pooled flows into the ones that make sense where we can keep control.

But overall here this next layer of growth for the US on top of the SMEs and still further penetration on the full sized pallet, we're making good progress in this space for a long term, profitable business.

So with that, those were the three slides I was going to cover but I'm happy to take any questions you might have on the rest of the business worldwide.

James Hall: Any in the room before we go to the web? Okay. So the question here, again from Scott at CLSA - I swear he's not the only person on the webcast by the way, there's actually about 70 of them. But the question relates to the final point on the previous slide - I might actually just go back to it - which is the final point on the operating cost and the point around negligible operating margin upside in FY'15. So Scott's question is can he confirm that that means that the operating margin in the Americas in FY'15 should be similar to that seen in FY'14 and do we still feel comfortable around delivery of the synergies between CHEP and IFCO PMS on completion of the consolidation?

Peter Mackie: So yes and yes is the short answer. But yes, we do expect to see that. We expect the inflationary pressures that we're seeing in transport we believe we can drive the efficiencies to offset that. Look, more broadly yes on the synergies but also in terms of the global efficiencies, so the $100 million that we talked about, we're also on track for that as well.

Tom Gorman: Yes, just so Scott knows, the [$35 million] that we've committed to in FY'15, that's not all in the US. So it's a global commitment and we're on track to deliver that this year.

James Hall: Another one on the web, from Simon Mitchell at UBS around the economics of the half pallet. So how do the economics work on the half pallet? The retailers seem to be the major beneficiaries, so are they paying for it? How does it work? How does it differ from the standard?

Peter Mackie: So look, the economics on the half pallet are very strong. So we have a sizeable fractional pallet business in the European business. It represents about 15% of the European business. Look, it's very strong value for the retailer. For the manufacturer it's less about supply chain efficiency as it is with the core platform, it has more to do with sales uplift. So what the manufacturer sees in the store is by having much more of the facing in the replenishment area they get much better sales uplift and when they use fractional platforms on promotional activity there's also quite strong sales uplift as well. So the economics for the manufacturer are much more about selling more. For the retailer there's a cost advantage and, obviously, a sales advantage for both.

Look, from our perspective the pallet actually has a very low damage rate and that's been proven in Europe over many years. The design that we have for the US half pallet is actually based off the European design. So the economics are strong for us because the damage rate is very low and the economics for all the players are strong, they're just different from the full size platform.

James Hall: Anything in the room before we - yes.

Paul Butler: (Credit Suisse, Analyst) Hi, it's Paul Butler from Credit Suisse. Look, I know Asia's a small part of your business at the moment but I'm just wondering if you could talk about the opportunity that you see there and what you're doing about it.

Peter Mackie: Yes, so if I take - really the opportunity for us, the big focus for us, is around China at the moment. So we're seeing increasingly - in fact Tom and I were up there the week before last I think. We are seeing an increasing number of flows taking place in the marketplace. So for us and for everybody in China providing pallets for static hire the economics are not fantastic. They really need to flow to bring benefits to everybody in the supply chain. We're seeing much more in the marketplace of flows taking place.

Now we are - part of the reason we were in China was also Tom and I met with the Ministry of Commerce in China really to talk about increasing levels of standardisation both in the pallet but also in the rest of supply chain equipment in China. So the government are very focused in this five-year plan period on the efficiency of key supply chains in China where they see those costs as much higher as a proportion of GDP than many other countries around the world, where they think they should be more competitive. So we're working very closely with them to say how we can bring that palletised flow through better standardisation in the Chinese market. So lots of strong dialogue, lots of evidence on the ground that flows are now beginning to take place. So China really is the place that we're putting a lot of near term effort.

In India, look, I still think we're a away from palletised flows in an open model but our focus is much more around suppliers into manufacturers and getting efficiency in those circuits with palletised flows in India before the market opens up more broadly in the Indian market.

Then I think looking - I won't mention the name but we are working closely with a global retailer on how we help them service their growing network in Asia in a more specific way than we have done before.

So I think the main focus for us will be China, then India and then for South-East Asia really when we can do something specific with big, global customers we'll look to do that.

Tom Gorman: The only thing that I would add relative to what's happening in China more than India, but it's a pretty amazing situation where the government is very, very clearly - I should say has a very clear point of view on this. I mean Pete alluded to this issue where they have 2x the Western standard in terms of logistics cost as a percentage of GDP. This is a big issue for them and it's now in the second time it's appeared in a five year plan .Their willingness to - MOFCOM willingness to meet with us and the quality of that discussion and the interrogation that they put on us about how the model and how the system works. We also were able to host some MOFCOM people down here in Aus. They clearly see us as the global leader in pooling and they are seeking our points of view on how to develop a more efficient supply chain in China. This is a long-term burn for sure but we're in a very enviable positon, I think, as we sit today.

The other thing that's a little bit misleading in the Asia growth numbers is we start our pool in China in plastic. We're actually shrinking the plastic pool. We don't think the future in China is plastic, we really believe it's growing on a timber base. The timber pool is actually growing at very strong double-digit but because it's only a third of the total pool two-thirds of the pool is actually shrinking a bit. So it's a little bit misleading, the timber pool is growing strongly and, as Peter said, we want to get good return on capital so we're focusing on dynamic flows.

Unidentified Participant: Peter, in Europe the - I want to talk about the competitive dynamic which if I categorise this wrongly, correct me. But you've been walking away from business that you felt was being priced at the wrong level and, perhaps, reallocating existing pool to more profitable customers and effectively keeping your capital base flat to down. Is that dynamic continuing? How long can it continue before you run out of opportunities to keep outperforming? Because it is a geography that from a macro perspective continues to look challenging but you continue to outperform. Just exploring how long you can keep that going.

Peter Mackie: All right, good. I'll maybe reconfirm what you said. Look, the business in Europe travelled very well in FY'14, so you'll have seen that in the year-end numbers, and it continues to do that. So the quality of that business in Europe continued to improve. Now part of that is that we are growing in Eastern Europe quite strongly and we continue to grow with our major global accounts in Europe as well. So good growth in the European business from that perspective and good quality of business is set to continue. The efficiency programs in Europe are also flowing quite nicely to the bottom line as well. So the business continues to perform very well.

Look, what we have seen is some very aggressive pricing on some already low priced business on some accounts in Europe and we reach a point where we look at it and say this looks - for a competitor that looks incredibly complex to serve and at this level of pricing we don't see this as sustainable. So we choose to let some of that go. So it's tough, we hate losing any accounts. But when you can't see the pricing levels as sustainable then you'd rather have your competitor take those ones off you than the other ones.

So we see that. I think there's a short term benefit that those competitors see by having a relatively new pool, but very, very quickly that comes home to roost when you're not getting all the pallets that you thought were going to come back, back and you're also beginning to see the damage rate kick into some of those new pallets. So look, we'll continue to take it every deal and try our best not to lose business. We do a lot of work with customers on taking cost out - significantly more cost than the competitors can save through low pricing. But there will be some that we'll choose to let go because we don't think they're sustainable at the level of the pricing our competitors are bidding at.

Tom Gorman: I think just a little more insight on this. I mean this is a source of great discussion as you can imagine between Peter, myself and to a large degree Zlatko and his team and it occurs in all the business units. Look, we take pricing very seriously because for us new business or retaining business is, in fact, deployment of capital in our business. So it's not like we have a factory that has open capacity, we like to look at it as if we win that business, that new piece of business, we have to put more capital to work. So we take it very seriously and it gets a lot of visibility. Historically when someone wanders in and says this is a strategic account you should read that as it doesn't make money. I'm sure in your business everybody's in that space. But there are times where accounts are strategic, because we're a network business we have to be very cognisant of the network impact of either winning or losing that piece of business. We believe that we do that quite well.

We have lost a bit of business in Western Europe in the last 12 months, particularly in the UK. I have to say that if we were to match the business at the price that it went for we would have had a negative gross margin in certain cases. So we recognise that our overheads are too high. That's what our One Better program is all about. But from an operating cost perspective we believe we're quite competitive. So if somebody's coming in at a price point that would drive a negative gross margin that business isn't sustainable. As long as it doesn't have an adverse network effect on us, which in these cases we believe I does not, and we push a little of that pain in their direction that's not the worst thing here.

But I think what you should take away from this discussion is that pricing gets a lot more visibility than it might in a company that isn't structured the way we are. Because we allocate capital for that business we pay very close attention to it and I should say Zlatko and his team go over every deal that requires any more than $5 million of capital has to come in and be approved centrally. So there's quite a bit of focus that this gets. If we walk away it really makes no sense for us.

James Hall: There's a follow up question on the web on switching costs from Joe Lin at Delta Lloyd Asset Management. It's just about - it's a general question around what is the switching cost impact for a customer when they do make a choice to switch between provider? What are the switching costs imposed upon them? Also then when they're switching to pooling from non-pooling what kind of switching costs are there in that regard?

Peter Mackie: Yes look, the switching costs are not that significant moving from one to the other. I mean the real issues from somebody moving from white to pooling is of the white pallets that they have left in their stock, working it out through their stock and selling those pallets on the open market to recycling. When you move from one pooler to the other it has less to do with the cost - there's a certain amount of time of flushing one stock out and putting anew stock in. I think for a company thinking about switching it has much more to do with security of supply. The pallet is - as a proportion of the total costs of goods sold the pallet is quite a low cost. So not having a pallet turn up when you need it or turn up in the right quality when you need it is the most important thing when you're thinking about switching from one to the other.

Jason Rabbino: But it's fair to say I think, Pete, though that you don't see much switching back to white from pooled.

Peter Mackie: No.

Tom Gorman: It's very rare - I think most of you know this - that once you convert to a pooled solution you do lose a certain amount of knowledge on how to manage those flows because you've outsourced it now, so moving back is quite rare.

Peter Mackie: Yes. Look, I think what we see - especially with those that move from white - is there's a lot of additional efficiency gains that are not expected when they first make the move that make them realise it's very hard to move back because you begin to lose some of that efficiency. So what we see with a lot of our global accounts is they push very hard to move across to blue in a number of other markets from white because they see the general efficiency gain of having their whole network on one platform.

James Hall: I've got a handful more questions on the web but before I do that is there anyone else in the room who wants to jump in? Okay, so there's a few on the US so we'll do those together. First is on home and hardware channel. What kind of size of opportunity is that? Also, given as you mentioned there's been a number of tenders in FY'15 are we assuming any upside this year or is that more of an FY'16 and beyond story?

Peter Mackie: So let me just take the - so in terms of the home and hardware, look, it's of the order of $30 million to $50 million. The bit that's hard to estimate is a number of our existing customers today in the US will flow through into the home and hardware sector. What that will enable us to do is to get more volume with some of those existing accounts. So that's the bit to some extent that's harder to scale, once we open those channels more broadly with more control what that enables for the pool at large. But as a standalone it's in that $30 million to $50 million bucket.

James Hall: Just the timing around potential upside should we succeed in winning any of that business?

Peter Mackie: It won't be in - it wouldn't be in FY1'5, it would almost certainly be in FY'16.

Tom Gorman: He was actually speaking to me now.

Peter Mackie: This is a budget conversation we are now having.

James Hall: The next question is from someone with a long memory on the subject of pallet durability in the US and the analysis that we're doing. The question is does this mean the return of the blue step pallet?

Peter Mackie: No, look, I think it's unlikely to be the return of the blue step pallet. It's more likely that it'll be some change to the density of the timber used on the leading edge. So some of the timber that takes the hardest knocks and you need to absorb the most shock it's going to be a change to the density of some of those materials.

We talked at the December IMB I think about nail plates as well. So getting better retention of the boards onto the blocks. Then also some different use of some nailing technology as well on the pallets. But no, it won't be a brining back of the blue step, for sure.

James Hall: It might actually be an idea just for those who haven't been following us for quite so long just to explain what the blue step pallet was.

Peter Mackie: Yes, so - well, the blue step pallet was a number of iterations of finding some different materials that would enable you to actually absorb more shock in the pallet. But unfortunately the mix of materials didn't work in Europe or the US.

What we have done with the changes that we're talking about really since the blue step is we have a test track in Orlando where we can actually test aggressively the duty of any changes that we want to make to the pallet, so we have a really good understanding of how they might deploy in the field. Actually really over the course of the last 18 months or so we have been deploying, to a small degree, some of these changes in the marketplace as well. So that we can see as they come back in the results we're getting off the test track, are they actually being demonstrated by the pallets that are coming back off the field?

James Hall: I'll just go back to the list here but if there is anyone in the room, who's got a follow up question, do ask it. There is one further around asset utilisation Peter and also one around the economics of the half pallet, so I might start with that. Is around is there an inflection point at which point the economics of the half - in terms of volume - at which point he economics of the half pallet begin to become very positive?

Peter Mackie: Yes, look, I mean to me our view was that there will be a small amount of growth in FY'15 associated with the half pallet. FY'16 would see it really take off with at least a couple of retailers. Really the inflection point we'd see is probably somewhere around FY'17 for that platform. That really is about getting a decent amount of network density for it.

James Hall: Then the final question, on the US, is just going in a bit more depth on the asset utilisation point up there around pool utilisation and what correlation there is between increasing pool utilisation and return on capital.

Peter Mackie: Yes, what we should expect to see here is that - maybe the easiest way to do this is with an example. So we used the spare capacity that we had in the pool to fund the two iGPS win backs that we had. We estimate the impact that that had on return on capital was about 1 to 1.5 points on return on capital. Now they were two substantially sized businesses but actually being able to reuse assets rather than buying new assets for those had a decent effect on the ROCE of the business.

James Hall: Thank you. The remaining questions are more general, Tom, so I might let you make any closing remarks and then go to those.

Tom Gorman: So look, I'd just say on behalf of my whole team here and - I would also add that all the members of the executive leadership team are here, so Jean Holley and Nick Smith are both in the back. They didn't have a speaking component in today's presentation. They are, in fact, literate and they both can speak. So look, when we break at the end of the Jean looks after all of our information systems and quite honestly Jean's a lot broader than that. She's got a great view on technology and feel free to speak with her. Nick is responsible for all the human capital in our Company. So both of them will also be around for a bit after this.

So look, I'll just wrap up and then we'll go to - I'll moderate if there are any questions left. But three things I just really wanted to touch on today, things that we tried to cover, first in a little bit more depth, we did want to go through the first quarter market view. So I think you were able to hear from all three gentlemen that run those businesses, so in containers, RPC and pallets a little more detail in terms of top line performance through the first quarter. Then as part of that update we also wanted to reconfirm for you our market guidance which essentially is unchanged from where we were but now we're rolling in the effect of 10 months of the Ferguson acquisition. So we've revised that guidance upward. But that upward revision obviously is reflecting the Ferguson acquisition.

The second thing that we wanted to touch a little bit is how M&A fits into our portfolio. Really as we said in the presentation we wanted to go back through that because post the Ferguson acquisition we had a number of questions but M&A in fact has played a part of our growth over the last five years that I've been CEO. It's obviously been a bigger part of the containers group because we've built that group really from a standing start, but it also has historically played a role in the RPC business. As Wolfgang alluded to, there are still a few opportunities for us, particularly as we look at filling out our geographic footprint there, there might be a few smaller opportunities for us still in the RPC space. But you should have taken away a little bit about how we view our M&A strategy. Look, as we have these sessions and have our meetings around results time we're happy to continue to explore our strategy here and how we see the trade off on return on capital and long-term value creation, so M&A will continue to play a part in that.

Then last but not least a little more detail than we normally would do on Ferguson itself, a relatively small acquisition for us but we think a very, very important foundational component of where we see our continued growth in oil and gas.

So, again, I'd just say thank you. We've had great attendance today. A great deal of interest particularly given that tomorrow's a holiday here, I wanted to thank you again.

So with that I think we'll go to additional questions and I'll just try to moderate here as best I can. If they're not allocated to a specific individual we might just pass the questions around a little bit.

James Hall: Anyone in the room? There is one on the web. You can guess who it's from.

Tom Gorman: Scott, how are you doing?

James Hall: So Scott's question was around diversification and he said obviously that's been a theme for the business over the last few years and with the Ferguson acquisition even more so. The question really is where do you see the business mix over a three to five year period?

Tom Gorman: Yes, look, I think that we've actually had four strategic themes. I mean go to market, cost leadership, people and leadership and then diversification was the fourth. So we've talked about these four strategic themes and we think that we've been working very hard on all four of those themes really over the last three or four years particularly. But diversification's very important to us. Our growth strategy, again pretty clearly, said we want to take what we know and what we think we're very good at and do it in more geographies around the world. We will continue to do that.

Jason touched on it very briefly in terms of Russia, but we do now have an office in Russia. It is a Brambles office. It's meant to be focused on building our pooling businesses there. We have a small pilot underway in the RPC business. We have a pallet team on the ground and we have some minor business at the moment in automotive. Look, it's hitting some clear headwinds, that market is hitting some headwinds, but in the long run we believe the Russian market is a place where our customers want us to be.

I also touched on Africa. We have done a very detailed market immersion there. We have a clear Southern Cone strategy, we have a very clear strategy in the north, and east versus west, west we've decided that the better opportunities in the medium term really are in West Africa as opposed to East Africa. So we're putting resources in place, people on the ground and beginning to develop that process.

You will see us continue to expand our business in Latin America. We have great positioning at the Southern Cone of the continent and then obviously still in North America but Mexico as the top of that, we have a very strong position there and we're looking at building that out.

So diversification in terms of geographic expansion is absolutely going to continue for us. The second component of that is take what we know and apply it to more asset classes. That's exactly what the Ferguson story is all about: taking what we know, which is pooling of fungible unit load devices - in the case of Ferguson they're CCUs or cargo carrying unit, but in the case of Wolfgang they're RPCs, in the case of Peter they're largely pallets. But we still believe that we can apply our skill to a broader set of assets.

At the moment there's nothing particularly - there's nothing specific to announce or talk about today. We have made a pretty big move into oil and gas and, as I said, we didn't buy that for the next quarter's earnings; we bought it because we think long term it's a great vertical for us to be in. So now what we have to do in the coming years is to prove that out and to develop our capability in that vertical.

So to be a little bit simplistic, we've got to digest the meal we just ordered. So that's what we're going to go focus on. So the diversification will continue to be important for us but we think that we have four very, very distinct plays and very distinct verticals in the containers business.

Automotive, which we think is a great place for us still, notwithstanding some of the near-term challenges; oil and gas, which we've touched on in great detail; aero, which I think we've been very upfront about. We want to continue to work the aero business but there may be a point in time that either due to scale or possible returns in that business we may look at that business in a different way.

Then of course the real - still we believe the real home run for us is in [intermediate] bulk containers and that has more and more to do with intercontinental flows. We have a great position there. We think we're the best suited to connect all the dots globally so that's really where we're going to play.

I think we've defined those four verticals very, very clearly and now we need to go deliver on those. So I don't see any significant changes. James, to answer Scott's question through you, I don't see any significant changes on that portfolio where it stands today. There's a lot of opportunity in all four of those and of course both Peter and Wolfgang still have enormous opportunity in front of them.

Diversification in those two businesses, we talked about it here but it's different verticals in pallets but also extending our display pallet business. With Wolfgang, the opportunities for different packaging solutions I don't want to say is infinite but it exceeds where we are today and we think that could bring a lot of value to our customers. So still plenty of opportunity.

James Hall: I've got the same question from three brokers on the phone but Paul, have you got one?

Unidentified Participant: Might be I'm the fourth. Tom, in talking about these existing verticals, I suppose if I look back China, aerospace would be two examples where you've had to think about developing the market, it wasn't there…

Tom Gorman: Yeah.

Unidentified Participant: …today versus oil and gas which yes it's maybe a side step from your existing business in CCCs but it's an established market. You've paid a bit more but you're further advanced. Any learnings or evolution in the Group's thinking about opportunities where you have to develop a market from scratch, there's no pulling market versus…

Tom Gorman: It's interesting. We've done a fair bit of analysis on that very question because it's an issue for the Board as well to wrestle with. I don't think there's a company in the world that doesn't wrestle with this. Fundamentally we believe in very simple statement to all of our people is quality and quantity. We believe we have to have very high quality business which we're blessed with today, and we need more of them. So we want to continue to grow and we believe that what our shareholders want is to put their capital to work at returns that exceed our weighted average - that exceed our weighted average cost of capital. So that's what we try to do.

We do that in two ways. Organically, so let's take the best organic example, which is the US. The US started in '91 or '92. I think Peter took 12 or 13 years to be cash flow positive and it is an enormously powerful business for us. Look, it has its ups and downs, like any business, from time to time, but it's an enormously powerful business and that business has shown us the example of first mover advantage. So if you get into a space in our industry and you can provide value to the customer versus the next best alternative it will take you a long time to build that business but when you do you have a very, very powerful business.

So I think the organic example is the US. I think the other organic example in the market entry; clearly India and China are in the same space as well. We're building those out because they don't exist today. So for us to go in there and make an acquisition, there's nothing to acquire.

Now in some of the other verticals it's quite different. IBCs in particular, Jason, you get a lot of specific niche players in various verticals. If those verticals make sense to us and there's a value equation that makes sense to us, we would entertain entry through acquisition if we believe we can grow it and we can bring some benefits to that entity.

But I think we're going to be disciplined. I know we're going to be disciplined around price. So let me give you the perfect example, which is Goodpack. We were very open on this. We were very interested in Goodpack and we had a view of what we could have done with that business. We think we could have added real value. It was in a vertical that is interesting but there were other things around Goodpack that we liked. But at the end of the day David Lam was able to convince somebody to pay them a lot more than we were going to pay so we walked away.

I think as long as we continue to have that discipline, whether we - the question of whether it's measured against retiring debt or buying back shares or organic entry, as long as we continue to have that discipline I think M&A should be a component of our growth strategy.

So that's - I can give you a lot of examples of stuff that we didn't do because we were quite disciplined and there are several in Jason's portfolio, most of which we haven't disclosed. But there are actions that we could have taken that we actually put bids in on companies and we got beat because someone was going to pay a lot more than we were. So that'll continue.

James Hall: Anthony Moulder from Citi had a follow-up question on Russia which was that previously we've spoken about asset ownership and the challenges around enforcing asset ownership in Russia being a reason why we're not there. So the question is what's changed that's making us think more proactively about being there?

Tom Gorman: Yeah, I thought he was going to ask why now because the timing is about the worst timing you could ever have, for let's go somewhere. Look, I might pass that to Pete, because maybe Pete could enlighten us as to what's changed. But jokingly aside, look Russia remains a very big challenge in terms of enforcing ownership rights, in terms of transparency, in terms of rule of law. It doesn't sit really well in terms of the corruption index. There are a lot of challenges; for sure there are.

I'll tell you why we're looking at it and then I'll pass to Pete. The reason we're looking at it is because our customers want us there and our customers believe that we can provide a solution that will make their business fundamentally more competitive. That's step number one.

Step number two is an adjacent to that. When our customers in Western Europe send stuff into Europe - into Russia, we charge them an out of pool premium, a fairly substantive out of pool premium. That's making those flows from Western Europe into Russia to be much less efficient than they should be, and at the very least we should be developing a collection engine in Russia to get those assets back and then fundamentally and in the long term potentially lowering the cost of business for our customers that are shipping from West to East.

So those two major drivers are what's made us consider this more than we might have four or five years ago. But Pete, I'll pass to you to answer the question.

Peter Mackie: We've actually had - our first employee in Russia actually was an asset director and that person's been on the ground now for probably about 18 months in Russia because the first question was exactly Anthony's question is can we get legal title to our assets in Russia? Actually during the immersion week, which is now probably about a year ago, Tom, I think, wasn't it?

Tom Gorman: It was a beautiful time in November [unclear].

Peter Mackie: We had the immersion in Russia. We also visited some recyclers in Russia as well to begin to start talking about everybody wins if we can cooperate together. They were reasonably positive discussions as well in the Russian market.

So I think we've done quite a bit of due diligence both on asset title and how we might work with the recycler market in Russia before we then really started engaging with customers, which we've been doing much more in the course of the last year. I think on the pallet side of it it's likely to start with some pilots with the largest retailers and our big global manufacturers in Russia to prove out we could make pooling work in the market. But no, the asset piece has been a key part of the dialogue before we've actually started talking to customers in Russia.

Tom Gorman: The other thing I would just add - and Pete's very familiar with this - look, we're a lot smarter than we were four or five years ago, and frankly we've learned a lot from the other forays into Central and Eastern Europe, most notably Turkey, to be blunt. Turkey is a great growth engine for us. We think in the medium term it's going to be a great business for us. But we learned a lot of things that we thought we knew before we entered. You can do all the desktop studies you want; you can hire all the supposed experts on a country that you can find, but the only way you really learn about these things is you've got to get people on the ground and you have to do it in a responsible manner but you have to get experience on the ground.

The Turkey story, I think, is a great one. BIM is the dominant retailer there; BIM is a local retailer. We don't have experience with BIM around the world. We had a great agreement with BIM when we first started out, and then as they learned the business, because they too were new to pooling, they wanted to readjust and realign some of that relationship. I think what we learned from there is the importance of the retailer because most places around the world, our pallet business is really built manufacture it first. That experience plus the cumulative experiences that we've had over the last couple of years have really refocused us to be much more retail - I don't want to say retailer dominant but retailer balanced organisation. That has informed us as how we think we need to enter Russia.

So we're smarter than we used to be; our business in Europe is in really good nick and well controlled; we think we have the intellectual and management bandwidth to make the expansion; and as we pointed out, our customers want us there and our pallets are going in anyway. So I think the time was right. Geopolitically you could question it but from a business perspective for us the time was right.

Peter Mackie: It might be worth adding, Tom, in terms of - because geopolitically what we've seen is a lot of the - in the FMCG industry a lot of what we've seen is a push by the Government for much more local production. So actually there's quite a high proportion of the customers that we would work with that produce locally in Russia anyway. So the current situation doesn't feel like a threat.

James Hall: Okay. Well the one final question on the phone that three people asked was the Melbourne Cup question which is…

Tom Gorman: Brambles.

James Hall: There's a horse called Brambles running. Will you be placing a bet?

Tom Gorman: Yeah. I backed Brambles in two races in the last couple of weeks and I got nothing to show for it. But I think our employees will put some money behind the horse tomorrow I would imagine. But I don't think that I'm much of a race - I am a procrastinator but I'm not a good forecaster of what's going to happen on the track.

Off the record, as an aside, in my life I used to live in Melbourne, I think everybody knows that, and we had a very famous neighbour. My neighbour was Simon Beasley. Those of you that live here would know that name. Simon - one day my wife called me when I was at Ford. She said, oh I think it would be a great idea if we bought a horse. I grew up in New York City; I never really saw a horse. Because Simon was a very gregarious and friendly neighbour we went in on a deal to own a horse with him. It was a complete disaster.

Then, to show you how intelligent we are as a family, we doubled down and we bought another horse. The second horse's name was Repeat Offender. I got to name the horse because it was a repeat offence, and let me just say that that was the end of my time with horses. So owned two and have all the scars to show for it. But we'll see what happens with Brambles tomorrow.

Look, James and his team have done a brilliant job organising this, as they always do. So thanks to James, Raluca and Louise and the whole team and again on behalf of my management team and all the folks at Brambles, we really appreciate you making the time for us today. There is no need to rush. I know that the day is wearing on here but we'll all be around for a bit and as James pointed out, I think on the 35th floor we have some space upstairs there if you'd like to stick around and grab a drink at our expense. So thank you again today. Really appreciate it.

End of Transcript