Event Transcript

Company: Brambles
Title: 2016 Full Year Results
Date: 18 August 2016
Time: 11:30 a.m. AEST

Start of Transcript

Raluca Chiriacescu: Good morning, everyone. This is Raluca Chiriacescu speaking, from Brambles' investor relations team. Thank you for joining us for the presentation of our results for the 2016 financial year. We will open the lines for Q&A at the end of the presentation. I remind you that all forward-looking statements are subject to the disclaimer on slide 53 of the deck we lodged with the ASX this morning.

Unless otherwise stated, all currency amounts are in US dollars, and we refer to growth rates in constant currency. Following the ASX announcements released this morning, we are joined on this call today by Brambles' Chairman, Stephen Johns, along with CEO Tom Gorman and CFO Zlatko Todorcevski. I will now hand over to Tom.

Tom Gorman: Well thanks very much, Raluca, and welcome, everyone. This year, the Brambles team has delivered an extremely strong result. I would therefore like to begin by covering a few highlights before handing over to our Chairman, who will talk about the succession announcement we also made this morning. And I would like to start today's presentation with an overview of our safety performance, which continued to improve during the year.

In FY16, our key measure of safety, the Brambles Injury Frequency Rate, or BIFR, as we refer to it, improved from 13.0 in FY15 to 9.7 in FY16. This is a 25% improvement. Pleasingly, all three business segments delivered improved results and we had no work-related fatalities during the year.

Now turning quickly to our financial results, FY16 was a very good year for us. Sales revenue growth of 8% and underlying profit growth of 9% were both in line with the upgraded guidance we provided at the first-half results in February of this year. Now I will discuss the drivers of our results in more detail over the next few slides. However, at a high level, there were three key areas of marked improvement during the year.

Firstly, our developed market businesses delivered accelerated revenue growth and exceptional operating leverage, particularly in North America and Western Europe. Secondly, our emerging markets pallet businesses improved significantly during the period, particularly in Latin America. The segment delivered 15% growth at constant currency, which is in line with our expectation for these businesses. And lastly, our European RPCs business continued to expand strongly with new and existing retailers and also delivered scale-related network and transportation efficiencies, again, particularly in the second half of the year.

We also continued to invest in our well-established businesses during the period, delivering over $400 million of growth capital, primarily focused on pallets and European RPCs. In line with our progressive dividend policy, the Board increased our final dividend by AU$0.005 to AU$0.145 per share. Commencing with the final dividend, the DRP discount has been removed and the impact on EPS will be neutralised via an on-market purchase.

Now consistent with our commitment to disciplined capital allocation, we undertook two portfolio actions this year, the divestment of LeanLogistics in May and in August, we announced the creation of an oil and gas containers joint venture, HFG, which strengthens our position in the sector and provides us with optionality over the long-term ownership of and the capital allocation to that business segment.

Now, FY16 has set the foundations for a platform of very strong future growth. We expect to benefit from the investments we have made to date in operational and indirect cost efficiencies and deliver constant-currency sales revenue growth between 7% and 9% and underlying profit growth between 9% and 11% in FY17.

We remain committed to the FY19 targets as well. We expect the continued investment in our network advantage, our disciplined approach to capital allocation and continued operational efficiency deliver return on capital invested of 20%, excluding acquisitions and foreign exchange impacts from December 2013. Now in addition to these key messages, we also, as you've seen, released today an announcement regarding my intention to retire from Brambles. To address this announcement, I'd like to introduce our Chairman, Stephen Johns.

Stephen Johns: Thank you, Tom. This morning, we announcement that Tom Gorman has decided to retire from Brambles. After seven very successful years leading the Company, Tom will step down as CEO on 28 February next year and will leave Brambles on 30 June 2017.

The Brambles Board has appointed Graham Chipchase, who is the CEO of the FTSE-100 company Rexam PLC, as Tom's successor. Today's announcement is a result of a carefully planned and thorough process. In accordance with good corporate governance and to ensure we are able to appoint the best possible person to replace Tom, we reviewed our internal candidates against a short list of high-quality external candidates. In the end, the Board was unanimous in its decision to select Graham.

Graham has a proven record of success as both a CFO and CEO of a FTSE-100 company. Rexam is a global company with similar characteristics to Brambles, dealing with supply chain logistics, customers in the fast-moving consumer goods sector, a large industrial base and a growing presence in emerging markets. During his time at Rexam, Graham gained a reputation for strengthening customer relationships, growing the company and delivering significant shareholder value.

We are confident he will build on our strategy and success to continue delivering for Brambles' customers and shareholders. I am delighted that we have been able to attract someone of the proven experience, calibre and reputation of Graham Chipchase. As you'll see from today's results, Graham joins a company that is in excellent shape. This is in large part due to the successful leadership Tom and his management team have provided to our 14,500 people.

Since Tom was appointed CEO in October 2009, he has worked tirelessly to establish a clear strategy for value creation and to refocus the Company as the global supply chain solutions leader it is today. Over the seven years of Tom's leadership, specifically the period from 6 October 2009, the day Tom was announced as CEO, up to last Friday, Brambles has achieved a total shareholder return of 145%. On behalf of the Board, I sincerely thank Tom for his personal energy and for his commitment to delivering for our customers, shareholders and employees. He leaves us with our very best wishes.

Before concluding, I'd like to make a few points concerning the transition period. Graham will start with the Company as CEO Designate on 1 January next year. He'll work with Tom on a two-month transition period before taking over as CEO on 1 March. This timing will ensure a smooth transition, with Tom remaining fully accountable in his capacity as CEO for the operations of the Company until he steps down on 28 February. This includes the delivery of the first-half result for the 2017 financial year in February.

Tom will then continue to be available to help Graham until the end of the financial year, when the retires from Brambles. Graham, with the Board's agreement, will be based in London to bring him close to Brambles' key markets and allow his travel schedule to be more manageable. Graham, like Tom, will also spend a good proportion of his time in Sydney. But to avoid speculation, I can confirm that Brambles will retain its ASX listing here in Australia, and we will not be looking to add a second listing elsewhere.

Now let me back to Tom and Zlatko, who will present the year's results in detail.

Tom Gorman: Well thank you very much, Steve, and I really greatly appreciate your kind words, but as you know, this is a team sport, and at Brambles, I've been absolutely blessed with a great team. Let me now turn back to discussing our business and our FY16 performance.

I'll start with just focusing on our highlights from FY16, but I'd only like to cover a few points here. On a statutory basis, operating profit growth of 5% includes the impact of significant items, and in this case, significant items are primarily a $38 million impairment charge that we took against goodwill in our oil and gas containers business and other costs associated with the One Better program.

The 2% increase in profit after tax reflected slightly higher net finance costs and tax expense, which partially offset operating profit growth. As mentioned, total dividends per share increased by AU$0.01 per share, or 4% for the year. Although cash flow from operations decreased during the year, this was due to the substantial increase in CapEx to support growth and some specific actions we took in relation to standardising payment processes across the Group, and Zlatko will discuss this in a bit more detail later in the presentation.

This slide shows the delivery scorecard for the year. This is the area in which I take the most pride, and it really is a testament to the strength of all of our employees across the Group. We delivered on all the commitments we made in FY16, despite macroeconomic uncertainty, industry headwinds and cost pressures in certain markets. In addition to delivering constant currency sales revenue and underlying profit growth in line with our upgraded guidance, we also delivered our One Better savings of $34 million at the end of FY16, and this is slightly ahead of the original $30 million target we set when we launched the program in 2014.

We invested $407 million of growth capital expenditure, predominantly in our well-established pallets and European RPC businesses, and this was in line with our revised guidance from February of this year. And we continued to deliver improved ROCI performance on an FY19 target basis. The 40 basis point improvement in FY16 was largely driven by improved profitability in the pallets segment, particularly North America. And we also brought our net debt to EBITDA back within our internal policy of less than 1.75.

Before I go into our performance by segment, I want to take a moment to put our portfolio in context. With over 80% of our revenue coming from the FMCG and fresh produce sectors, we have a very defensive core customer base, which underpins our portfolio. We are able to grow faster than the sectors we serve by increasing our share of the addressable market and expanding into new verticals. When combined with operational and overhead efficiency initiatives, these factors, combined with our network advantage, deliver an attractive rate of return on the assets that we employ.

A few key points that I'd like to emphasise from this slide. In pallets, our Americas businesses delivered strong revenue growth of 8%, driven by great net new wins performance in the US and strong growth in Latin America. Underlying profit leverage was somewhat muted by the unique challenges we are facing in the North American recycled pallet business, which I will touch on shortly. But if we looked only at the pooled pallet operations, you can see the Americas went from strength to strength during the period.

These businesses delivered sales revenue growth of 9% with very strong underlying profit growth of 14%. Our pallets business in EMEA delivered 6% growth, and this is actually the strongest growth performance in almost a decade. Growth reflected strong organic growth and net new wins in Western Europe and Central and Eastern Europe. Our UK business continued to cycle the impact of prior-year losses. However, the performance did improve in the second half as a result of strong net new business wins and good momentum in that area.

During the year, we successfully renewed our major contracts which came up for tender, and we did not lose any sizable contracts to competitors. Operationally, the business continued to deliver exceptional operating leverage resulting from the delivery of strong supply chain efficiencies in a low inflationary environment. And finally, in RPCs, the performance does vary by region as well as between the first and second half of the year.

The European business delivered an outstanding performance with strong retailer expansion and supply chain efficiencies, particularly in the second half of the year. This strong performance offset short-term network inefficiencies in North America, which also moderated in the second half of the year as a result of the actions the US-based team is taking to improve the performance of this business. Acquisitions in Chile, Colombia and Japan also contributed to growth and profit.

Now I'd like to take a bit more in-depth look at our North American recycled pallet business. I would like to outline why this business is a strategic part of our pallets portfolio. From a customer perspective, having the recycled business as part of our portfolio allows us to provide customers with a multiplatform set of solutions, which really are tailored to the profile of each customer's supply chain.

Operationally, the North American recycled business is a key component of our US pooled plant operations, with over 20% of our repairs now going through this network. It is also an important part of our asset recovery program in the region. Financially, this business is cash generative due to the minimal CapEx requirements, and has also generated approximately $35 million of supply chain synergies with the US pooled business.

Finally, our recycled pallet business provides a viable low-risk alternative for entering new geographies and new verticals. We are gaining significant expertise in this segment, which we can deploy globally. Now, notwithstanding the strategic fit, there have been challenges in the business over the past year. Some of these are market driven, which include a significant inflation in pallet core prices over the past 12 months. But in addition, we have experienced margin pressure associated with a price ceiling for certain grades of cores.

We have had to take a more active role in managing core purchases in the context of the evolving price environment, and this did impact inventory values in FY16. Now, to address these challenges, we have implemented an action plan which really comprises four key initiatives. Firstly, we brought in a new leadership team with strong operational focus. Secondly, we've identified a number of cost initiatives, including the delivery of lean manufacturing disciplines across the entire network.

Thirdly, we've optimised a number of business processes to ensure that we are operating efficiently. And finally, we have revitalised our go-to-market strategy with a greater focus on diversifying our offering and increasing market penetration in target markets. Now just before I hand over to Zlatko, I'd like to review a slide that puts our growth by segment in the context of our longer-term growth expectations for each one of our businesses.

We have also included at the bottom of the chart the growth capital expenditures we have invested in each segment over the past two years. Now starting with our developed markets pallet business, many of you have heard me say previously as I refer to our annual growth expectations in this segment in terms of 1% to 2% annual pricing growth, 1% to 2% annual like-for-like volume growth and between 2% and 4% growth from net new business wins or market share expansion.

As this chart illustrates, these businesses have delivered growth in line with our expectations for the past two years, and we do expect this to be the case going forward. These are some of our highest-returning businesses, and as you can see, the largest portion of our growth CapEx over the past two years has been allocated to this segment. Now, in our emerging markets pallet businesses, we generally expect annual growth of approximately 15%. This really reflects the substantial whitespace in these markets. After some challenges last year, particularly in Latin America, we are back on track in this segment, and we delivered growth in line with our expectations in FY16. In light of the large untapped opportunity, we have invested substantial capital in this segment and will continue to do so given the relative underpenetration of pooling and the growth potential in each region.

There may be a misconception about the return profile of these businesses, so I'd like to confirm for you that emerging markets does not mean emerging margins. Our business are strong in the emerging markets. Now, for the past two years, our RPC segment has exceeded our growth expectations of 10% per annum, and this is largely due to the strong growth in our European business. The relatively large capital investment in this business over the past two years reflects the significant growth opportunities in each market and our belief in the underlying strength of these businesses.

Excluding goodwill, our European business generates returns in line with our medium-term target, and we're confident that returns in the North American business will improve as we drive increased scale, network efficiencies and the profit improvement initiatives that we've implemented during this past year. Our containers segment has delivered muted growth over the past two years, largely reflecting the impact of industry conditions on our oil and gas business.

Excluding oil and gas, growth has been solid, albeit a little bit slower in some sectors than we had originally anticipated. In light of these growth conditions and our commitment to disciplined capital allocation, you will note the reduction in growth CapEx in this business during FY16. It's now my pleasure to hand over to Zlatko to discuss the financial results in a bit more detail.

Zlatko Todorcevski: Thank you, Tom, and good morning, everyone. I'd like to start by taking you through a more detailed look at the drivers of underlying profit. Price, volume and mix contributed $192 million to profit growth. This reflected continued strong operating leverage on sales growth. The newly acquired businesses contributed $6 million, including our new RPC businesses in Chile, Japan and Colombia. This strong growth has been partially offset by a number of moderate cost increases.

Firstly, depreciation continues to grow as we invest in our pallets and RPCs businesses, but these investments are supporting the strong growth in returns we are realising. Secondly, supply chain and operations teams continue to deliver strong savings in plant and transport costs, but these were insufficient to fully offset cost inflation and some direct cost headwinds in parts of the business. I'll talk about those in more detail shortly.

Other costs increased by $15 million, reflecting inflationary impacts on overheads, strategic investments to deliver growth and initial costs for establishing BXB Digital. Offsetting these increases were incremental One Better savings of $23 million. The Group's underlying profit performance was significantly impacted by the performance in North American recycled and the deterioration in oil and gas as Tom has outlined.

We've therefore segregated the results from our recycled pallets and oil and gas business results in the underlying profit bridge to demonstrate the strength of the underlying result in the continuing fuelling businesses. In pallets Americas, strong volume and price growth drove 8% sales revenue growth. The US pool business was up a very pleasing 8%. Around half of this growth was from continued strong net new business wins, and of the remainder, 3% of the growth was from price and sales mix.

Pricing increases in US pool were moderate, but we have continued to effect upcharges for MPD flows, where our risk of loss and recovery costs are higher. In Latin America, there was a particularly strong second half performance with improving organic volumes in both Mexico and Brazil. Around half of the sales revenue growth was due to increased price to compensate for the relatively high inflationary environment.

Looking at our profit performance in more detail, in the pooling operations, the strong sales growth delivered $105 million of additional underlying profit. This was offset by $15 million of increased depreciation to support that volume growth, higher retail inventory and higher plant stock levels. After a couple of years of increasing direct costs in the USA, it was particularly pleasing to see that these have now started to moderate. The increase in plant costs of $19 million was predominantly due to inflation in Canada and Latin America, a new plant in Argentina and higher repair costs in Canada.

The US did experience some minor increases in plant cost due to repair timing. As advised previously, our durability actions are expected to deliver plant cost benefits in the US from FY17 onwards. Transport costs increased by $12 million. Inflationary pressures in the USA moderated in the second half, but the lower fuel prices also negatively impacted income from the fuel surcharge. Improvements in asset collections also drove some additional transport costs.

Other costs increased marginally due to higher employee costs. I've already discussed the recycled business's $25 million profit fall. If you exclude recycled and look at the result from a pure pooling perspective, the underlying profit growth of 14% was outstanding, with profit margins and return on capital invested increasing by 1.1 percentage points. Overall, we're extremely pleased with how our pooling businesses in the Americas are progressing, and particularly how the US pooling business has started to overcome numerous challenges. In Europe, Middle East and Africa, strong volume growth drove the highest sales revenue growth in Europe in a decade. This was through both improved organic volumes and new business wins.

Western Europe grew by 6%, driven by continued expansion with new and existing customers. Revenue growth was particularly pleasing in Iberia at 6%, France at 5%, Italy, 13%, and at Germany, growth of 7%. In the UK and Ireland, sales revenue was flat on the prior year. Rollover contract losses from FY15 offset new contract wins and like-for-like organic volume growth. Central and Eastern Europe growth accelerated in the second half of 2016 to deliver full-year growth of 20%, driven by strong new business wins, particularly in the larger markets of Poland and Turkey.

Across Europe, pricing was marginally negative, reflecting the indexation pricing mechanism and the low inflationary environment. Africa, India and Middle East continues to grow strongly from organic volumes and also price increases to offset inflationary challenges. Turning now to the Europe, Middle East and Africa profit performance, the European business continues to deliver strong supply chain efficiencies. With minimal cost inflation, these efficiencies are currently falling straight to profit. The Europe, Middle East and Africa business continues to deliver exceptional margins and return on capital invested, particularly in the low current inflationary environment.

Before moving on, I'd like to address commentary about Brexit and the impact on Brambles. We have included a slide in the appendix of this presentation to provide an overview of our European business. The key things to know, though, are that firstly, the UK represents less than 9% of our total revenue. Secondly, cross-border flows between the UK and Europe represent a minimal proportion of our European volumes. And finally, we expect to have ample time to understand the implications of the exit mechanism as they're defined in the future. Overall, we anticipate minimal impacts in the near term.

In Asia-Pacific, there was solid pricing and organic growth in Australia, resulting in 5% sales growth across ANZ. In Asia, the wooden pallet volumes in China continue to grow strongly at 16%, partially offset by the decline in the plastic pallet business of 4%. Underlying profit in the Asia-Pacific business increased 3% in the period. Plant costs increased marginally by $2 million. Despite delivery of efficiencies, these were insufficient to offset inflation and additional cost required to meet customer volume demands. The other cost increase of $4 million reflects lower customer compensations from lower pallet losses.

The RPC business had a far stronger second half after a relatively disappointing first half in the North American business. Europe continued to deliver outstanding volume growth with existing and new retail partners. Revenue growth accelerated in the second half, particularly in France, Italy and Spain. The North American sales result was positive despite the loss of Safeway. The rest of world includes the Chile, Japan and Colombia acquisitions. Excluding these acquisitions, revenue growth was 11% due to continued expansion in Australia, South Africa and Latin America. The total RPC business delivered 12% sales growth excluding these acquisitions.

At a profit level, the increased volume and the contribution from acquisitions was partially offset by increased depreciation due to growth in the pool. Plant and transport costs were essentially flat compared to FY2015, and we're particularly pleased with the strong margin and return on capital invested expansion delivered across the European business. In containers, the strong sales revenue growth in automotive and intermediate bulk containers are encouraging. Both businesses benefited from strong organic growth and market share gains. Aerospace revenue growth reflected the impact of new business wins.

Notwithstanding these positive growth trends, the containers segment was significantly impacted by the reduction in oil and gas revenue following the downturn in the sector. Although the oil and gas business remains profitable and is a strong cash generator, underlying profit declined $14 million from last year. As we announced on 5 August, this segment will be combined with Hoover into an independent joint venture in FY17. The trading activity from this business until the date of completion of that transaction will be reported as a discontinued operation in FY17.

Following completion of the transaction, the Brambles share of the profit after tax from the joint venture will be reported in share of joint ventures and associates. Excluding the impact of oil and gas, underlying profit in the containers business increased 27% in FY 2015. This was driven by strong revenue growth, which was more than sufficient to offset higher depreciation and direct cost increases. The small increase in depreciation costs in the slide mainly represents the investment in pooling equipment to support the Cathay business.

There were some direct cost increases in intermediate bulk containers due to short-term cost pressures associated with inflation and structuring that business for growth. Containers margins and return on capital invested both fell during the period. However, excluding oil and gas, sales revenue grew by 8% and underlying profit grew by 27%. This profit growth was predominantly due to strong profit leverage from the growth in the automotive sector, and on this same basis, return on capital invested increased by 1.1 percentage points.

The direct cost trend for the Group remains in line with the targets we have set under the One Better business improvement program. The targets for FY19 are, firstly, to reduce total overhead cost by $100 million, and secondly, to reduce the overheads to sales ratio by at least 2 percentage points to 13.5%. To date, we have made good progress in reducing the sales to overheads ratio and have delivered a cumulative $34 million of savings. This was an incremental $23 million of savings in FY2016. We're comfortably well on track to deliver our FY19 targets.

We continue to invest capital expenditure to grow the business. Growth capital expenditure in FY16 was $407 million. This was at the bottom end of the revised guidance of between $400 million and $450 million we provided in February, due to the lower growth in IFCO North America and containers. This demonstrates the flexibility we have in allocating capital expenditure to those businesses where growth and returns justify the investment.

Our investment in the pallets businesses was in line with our expectations and represents the highest level of pallet capital expenditure in the last decade. This increase was largely due to strong growth with customers and an increase in US plant stock levels to help mitigate transportation costs. In addition, we also invested to support continued customer restocking in the US, albeit these capital expenditures slowed during the second half of the year.

A chart of the USA pallet stocks and customer stocking is included in the appendix. Our expectation of $1 billion of growth CapEx over the period from FY17 to FY19 is unchanged. In FY17, we expect similar levels of capital expenditure to FY17, and then this will reduce to around $300 million in each of FY18 and FY19 after further asset utilisation efficiencies are realised across all of our pooling businesses. In line with our commitment to disciplined capital allocation, we expect the majority of future growth capital to be directed towards our well-established, high-returning pallets and RPC businesses. Further details of our CapEx profile can be found in appendix 14.

Looking now at cash flow, although underlying EBITDA at constant currency has been strong, on an actual currency basis, it only represents a moderate increase when translated to US dollars. Capital expenditure increased in FY16 to support growth in our business, which we'll continue to benefit from in FY17. Working capital has increased by $147 million, primarily due to a one-time change to our payment processes. Approximately $125 million of supplied payments were settled in June rather than July 2016, when they would have previously occurred.

We have been standardising our payment process across the Group, and this one-time adjustment will bring us and our suppliers significant administrative benefits. The $100 million proceeds we received on the sale of LeanLogistics in June, which is not included in free cash flow after dividends, has allowed us to fund this one-time change in working capital. Tax paid has increased in line with the growth in the business, and financing cost paid increased slightly due the 144A issue we completed in October last year.

The dividend paid in FY16 was lower due to the dividend reinvestment plan introduced during the year FY16. This allowed us to redirect $125 million to reinvest in growth capital expenditure. The weaker Australian dollar, in which dividends are paid, reduced the actual dividend paid by US$25 million. As Tom has mentioned, the DRP will be retained, but with zero discount, and the dilutive impact of the DRP will be neutralised going forward. We expect FY17 cash flow from operations to be an improvement on this year, primarily due to an expected increase in EBITDA and the non-repetition of the one-off working capital adjustment this year.

Capital expenditure in FY 2017 will continue at similar levels. However, the neutralisation of the DRP will increase the cash outflow for dividends paid in FY 2017. And finally, whilst free cash flow after dividends was lower this year, the proceeds from the sale of LeanLogistics have allowed us to maintain a very strong balance sheet and reduce net debt. Our average term of committed facilities has increased to 4.3 years following the US$500 million issue of 10-year notes in the US 144A market last year.

Net debt to EBITDA fell due to the reduction in net debt and is now comfortably within our target of 1.75 times or lower. This gives us sufficient headroom to continue to invest to support growth in FY17. I'll now hand you back to Tom.

Tom Gorman: Thanks very much, Z. I'll conclude with just a few comments. On this slide here, I'd like to highlight how we are executing against the strategic objectives that we set at our investment market briefing in Pasadena. These strategic objectives really underpin the investment proposition that Brambles is all about.

The first of these objectives is about widening and deepening the competitive moat around our business by investing in protecting and enhancing the very strong network advantage that we enjoy. The growth CapEx we are investing is about leveraging that position, especially in our core operations serving fast-moving consumer goods and fresh produce sectors.

Our brand and go-to-market investment is integral to strengthening our market position, and we are also investing to leverage our 550 million assets worldwide by developing a stronger data analytics capability and ultimately participating as a solutions provider in the Internet of Things. At the FY16 first-half results, we announced the appointment of Prasad Srinivasamurthy, the former Head of Customer Innovation and Internet of Things with SAP, to lead this initiative for us. We are calling this new business BXB Digital, and in FY17, we will invest $10 million of operating expense to build out this opportunity.

Our second strategic objective is all about driving operational and organisational efficiencies. This is really about improving the quality of our business and taking cost out. As we have shown today, operational efficiencies are largely offsetting direct cost pressures, and the One Better business improvement program is on track. We are constantly looking for further opportunities to reduce direct operating costs, as well as overheads, in all of our operations.

We're also thinking about ways to structure our business more efficiently and more effectively to deliver for our customers. Shareholders should expect this to remain an extremely important for Brambles going forward. Now, our third strategic objective is disciplined capital allocation for long-term growth. You have seen that we reduced growth CapEx in some of our smaller and less well-established businesses.

I wish to stress that we are actively focused on all of our business units' ability to deliver satisfactory scale and returns within a timeframe acceptable to us, and naturally to our shareholders. Where we do not have a high enough degree of confidence in delivering such an outcome, we will not invest further, and we may well seek alternative options with regard to structure and/or ownership. Now recently, you've seen us take two such portfolio actions by divesting LeanLogistics and creating HFG.

Now, I believe you will all be familiar with this slide, which we presented in our first half result in February. This is essentially a visual roadmap to achieving our targeted return on capital of 20% in FY19. Today, our average capital invested, it's shortened to ACI on this slide, is $6.5 billion, but this does include about $700 million of capital from acquisitions made since December 2013. And if you recall, that's when we established the FY19 objective.

At that time, we said our long-term objective excluded any further M&A activity and was at constant currency. Now, to reconcile the FY16 return on capital of 15.3% to the FY19 objective, we really need to make just two adjustments. First, we exclude the impact of acquisitions since December 2013, and second, we exclude the impact of currency movements since again, that same date of December 2013.

This gives us a return on capital run rate of 17.2%, which is up on the adjusted 16.8% we reported in the first half of FY16. So how do we anticipate achieving at least 20% over the next three years or so? And as we have articulated, we're really focused on improving both the quality and the quantity of our business. Quality is about the actions we are taking that will lead us to higher margins, and quantity is about the strong incremental rates of return we anticipate generating on the growth investment that we are in fact making.

Now on this slide, we provide a little more colour on the indicative building blocks to delivering higher returns. We expect quantity and quality initiatives to be roughly equal contributors to this improvement. While quantity initiatives will be the main driver of underlying profit growth, the quality initiatives will nonetheless contribute roughly half of the improvement in returns, because naturally they require little in terms of incremental capital. These quality initiatives include the remaining $66 million of the One Better program, incremental benefits from the pallet durability program as it ramps up over the next few years, and further supply chain efficiencies in the pallets group.

The balance of the improvement in returns is really driven by quantity, as we highlighted previously in this presentation. And this is supported by around $1 billion of growth CapEx over the next three years. Now in this chart, we provide a little more colour on how we broadly expect this capital to be allocated. Roughly 35% is expected to be invested in mature pallets business, about 35% is expected to be invested in the emerging pallets markets. We expect about 25% to be invested in RPCs, and finally, around 5% is expected to be invested in the containers group.

The key point to note is that over the next three years, more of our capital will be dedicated to higher-returning businesses. Now in addition to our FY16 result, which we've covered in some detail, I also would like to talk to you about our outlook for FY17. You will see that we have provided an adjusted FY16 sales and underlying profit at 30 June 2016 foreign exchange rate.

These numbers exclude oil and gas business, which in FY17 will be equity accounted from the date that the transaction couples. Now for FY17, notwithstanding the challenges presented by continued uncertain economic environment and generally low global growth rates, our expectations are for growth to remain strong in the coming year. We expect sales revenue growth of between 7% and 9% at constant currency, and we expect underlying profit growth of between 9% and 11% at constant currency.

The positive leverage to profit will result from our continued focus on supply chain and indirect cost efficiencies. Now at 30 June 2016 foreign exchange rate, this all translates to an underlying profit range of between US$1.055 billion to US$1.075 billion. Net interest costs are expected to be between US$105 million and US$110 million, and this does include the interest revenue related to the shareholder loan and the deferred consideration as part of the Hoover-Ferguson Group transaction, which we announced on 5 August. And we expect the effective tax rate on underlying profit to remain about the same, at 25%. Now I'd like to close by just recapping the four key points.

We have delivered a great full-year result for FY16, in line with our upgraded guidance. We expect sales revenue momentum and profit leverage to continue in FY17, with guidance for constant currency sales growth between 7% and 9% and underlying profit growth between 9% and 11%.

We remain keenly focused on effective capital allocation across all of our businesses, and we have reaffirmed our FY19 objectives. Thank you very much. We will now take questions.

Raluca Chiriacescu: Thank you, Tom. Just a reminder that in addition to Tom and Zlatko, our Chairman, Stephen Johns, is also here to address any questions you may have about CEO succession. The first question is from Anthony Moulder at Citigroup. Please go ahead, Anthony.

Anthony Moulder: (Citigroup, Analyst) Hi. Good morning, all. Maybe if I can start with a question for the Chairman instead. Given the succession of Tom, how you get comfortable that you can lock in a lot of the senior management that are integral to the delivery of I guess that FY19 target to ensure that they stick around for the business.

Stephen Johns: Well, Anthony, that's an important question, something which obviously the Board is well aware of. We have very, very strong depth of management right throughout the organisation. We believe that management will remain firmly in place and are very committed to delivering results for the Company in all the divisions.

I think it's business as usual for us. The Board is highly confident that the projections through to FY19 remain valid and will be achieved. If we didn't believe that, we would be making an announcement to the contrary. And so from our perspective, from the Board's perspective, as I said it's business as usual, and we have the management team in place to achieve that.

Anthony Moulder: (Citigroup, Analyst) But more granularly, have you reset contracts with some of those key executives?

Stephen Johns: It's very early days. We're just making an announcement this morning for the first time, and our key executives will only as today be aware of the change. That's something we'll look at as we go forward. But we have got, as I said before, great depth of management right throughout the organisation, and we expect at the various levels that that will not be necessary. But if it is necessary at certain levels, we'll look at that. But that's certainly something we'll be reviewing carefully with the new CEO.

Also it's important to recognise that we've got a very, very good transition period coming up for two months early next year, where Graham Chipchase will be working very closely with Tom, and I'm sure those matters will be carefully looked at.

Tom Gorman: Anthony, this is Tom. The only thing I would add to that - I think the Chairman's absolutely correct, but you're kind of implying by your question that the loyalty is to me, which I have to say is really mistaken. The loyalty is to the customer and to the business. You guys have had an opportunity to meet a wide variety of our management team. I think at the last investor briefing, we actually had 23 of our management team there to present, and I think that you all can tell that their commitment is really to what we're trying to do in the various supply chains that we serve and what we're trying to do for our customers.

So look, there's always a little bit of shock when news like this comes out, but I've talked to a number of our people today, last night and early this morning, and there's no question in my mind that they're committed to the objectives that we've established.

Anthony Moulder: (Citigroup, Analyst) Very good, and related to that I guess is that you've given - or you are personally accountable for this first half. Should we see the guidance that you've given as only a first half 2017 or what gives confidence that the business in the shape that you can deliver that kind of 9% to 11% EBIT growth throughout FY17?

Tom Gorman: Well look, I think again, Anthony, if I might, I don't think that's actually correct. My commitment is to every number that we put down, but it's not just my commitment. It's not as if we make these numbers up and then everybody that works for us goes and chases them. We actually build a plan with our team and then what Z and I have the pleasure of doing is really articulating that plan.

But it's a plan that's completely agreed, completely aligned and I would say completely committed to. And I would say even beyond FY17 - look, I have a financial stake in this Company that's important to me and my legacy is not about the past seven years. I would argue that it's really about the next seven and that I leave the place in the shape that we can continue to build on a foundation. That's far more important to me than what we've accomplished over the last seven years.

Stephen Johns: Good morning, Stephen Johns here. I'd just like to reemphasise that Tom is a fully fledged CEO for the next eight months or next six months actually through to the end of February. He will be responsible not just for the presentation of the half year results but also the updated guidance that no doubt we'll be presenting at that time. Tom is also available as a consultant to Graham for the next four months, to 30 June. So he'll be here for the full financial year. But, I support what Tom says, this is very important, not just for this year but for the following two years to FY19 and the commitment we have and the support we have to date for those metrics being achieved.

Anthony Moulder: (Citigroup, Analyst) Very good. Thank you for those. If I can just touch on pallets Americas, obviously very strong volume price and mix growth, particularly into that second half. I guess how much of that could have been driven some of those challenges that you saw in PMS?

Tom Gorman: I'll think I'll pass to Z for some of the detail. But the business really, just for the benefit of everybody on the line, we refer to now as CHEP Recycled, so I just want to make sure that that's how we view the business. It's fully integrated into the US business today so the reference to PMS which was Pallet Management Services which is the old IFCO branding, that no longer exists, so just that one minor correction…

Anthony Moulder: (Citigroup, Analyst) Okay.

Tom Gorman: …and then I'll pass over to Z.

Zlatko Todorcevski: Yes, thanks Tom. So Anthony, just to be clear, the acceleration that I was referring to in top line was really about what happened in the US core business and predominately driven by what happened with net new wins in particular. We did face some challenges, as Tom spoke about on the presentation, around the recycled business and what we described as a ceiling on some prices for certain grades. So we did experience that. I would describe that as a first or second half issue. We did have some challenges, particularly around, as Tom alluded to, inventory and impacts. But, once again, that wasn't more a second half impact rather than first half. So I wouldn't draw any particular messages around the split of that over the year but I think the important thing is to recognise it's not where we wanted to be and Kim and her team are focused on the actions that Tom described, to make sure that we deliver the right outcome in FY17.

Anthony Moulder: (Citigroup, Analyst) Just lastly on that PMS business, am I right in saying that it looks like you've expanded into Canada? Are there plans to take that - I think one of the comments that you would look to extend that into new geography, is that in the American states?

Tom Gorman: No, well it's - we've been in Canada for a while so we made a very small acquisition a number of years ago called Paramount and now we've integrated both under one leadership team. So Tracy Scott now has oversight for both businesses, north of the US border as well as inside the US. One thing that we probably didn't emphasise enough here is that, you know, the idea of recycling for us is another tool in the toolbox, it's part of our go to market branding. It allows us to solve the customer's problem and in some cases a pooled pallet is not the right solution. So I think your point is that - your question around the new market entries I think it's very salient to us, we are really developing a lot of expertise now in the recycled business or the whitewood business and that does offer us an opportunity, particularly when we look at new market entry. It's a lower capital intensive way to enter a market, it lets us learn about the dynamics of the market, particularly around asset recovery and collection. So in addition to the benefits that we get in terms of another product to offer a customer, we are using the CHEP Recycled network in the US to help us with recovery and we're learning a lot through that effort.

So we're big fans of the business - look we hit a speed bump last year. The team is very, very focused on recovery but I do think it is an opportunity for thinking about new market entries in a different way.

Anthony Moulder: (Citigroup, Analyst) Thank you very much.

Raluca Chiriacescu: The next question is from Simon Mitchell at UBS. Please go ahead Simon.

Simon Mitchell: (UBS, Analyst) Good morning. A question for Tom on the guidance. It's the first time, I think, in many years we've seen the guidance reflect margin leverage. I just wondered if you could talk to the business areas where you see that leverage coming from.

Tom Gorman: Well, in fact I'm not so sure it's the first time we've done that Simon. I think when you go back to December of 2013 and we articulated sort of the medium term objectives to FY19 we really covered a couple of things; we said we wanted to grow at high single digits, we said we wanted positive profit leverage to that top line growth and we articulated a growth in average capital invested per year. The combination of those three were going to give us improvement in return on capital. So we had always envisioned our profitability growing at a rate faster than the growth of our revenue. As you saw in this result it's 100 basis points difference, 8% to 9%, we're guiding a little bit stronger in the coming year but we're confident that we can deliver that because of the number of initiatives that we have underway.

First of all, the growth investment - so I'll go back to the quality and quantity discussion - that we're making again about US$400 million in the coming year, that is really targeted at high return businesses. So we're going to get, if you will, an overweighting of growth in businesses that the marginal return is very high. So that helps raise the return on capital. Secondly, we have planned for the year a number of initiatives that really focus on the quality of the business, i.e. strengthening the returns of the business. The building blocks I think are well known but I'll just repeat them. First and foremost the durability program in the US is critically important to us, the continuation of the One Better program which is really targeted at indirects which is critically important to us. I have to say our ongoing ability to drive sort of daily efficiencies to offset inflation are also a building block.

So when you look at both the quality and the quantity component we believe that FY17 is going to be a strong year on that front and that allows us to guide to a certain level of operating leverage. Z, you want to add to that?

Zlatko Todorcevski: Yes, Simon, it's Zlatko here. I might just build off what Tom said. If you go back about a year ago you might recall the guidance we provided was 6% to 8% for both top line and bottom line and that's probably what you're referring to. If you think about where we were a year ago, we'd just come off a year with extremely high transportation inflation in the US, very strongly increasing plant costs and we hadn't yet initiated the durability program. So at that point in time, as Tom said, although we were still driving for underlying profit leverage there were a couple of factors that were moving against us and we were probably a little bit more conservative in the guidance we put out.

I think having gone through the last 12 months I think we've very comfortable with what's happening in transportation inflation. It still exists but our ability to mitigate it to a large degree is quite positive. Although we're still right at the front end of the durability program we have seen some early signs that are giving us confidence that, although it was neutral in FY16, we will start to see some benefits in 2017. So we feel good about the leverage and that's exactly what you should read into the guidance for FY17.

Tom Gorman: I guess the final comment I'd make - we're beating this question to death here - but the final comment I would make is that all of this is in the context of investing US$10 million of operating expense into BXB Digital. So this is not about standing still and just squeezing the business. We are actually taking the margin that we're developing and reinvesting in lengthening and deepening the moat here, that's what this is all about. So that US$10 million is going to be expensed during the year, but we are confident that over the coming years that will be a business that pays for itself and then some. So we're confident we can do it this year. But the top line is important to us. We've got to drive that top line and we have to get the margins that we're looking for in the new business which again, we're confident we can do.

Simon Mitchell: (UBS, Analyst) Just picking up on the pallet durability improvements in the US, I think Zlatko, as you mentioned, there wasn't evidence of that actually having an effect in this year, I think their plant costs were flat on the year as a percentage of revenue. So you're implying that that should improve over the course of 2017?

Zlatko Todorcevski: That's exactly right Simon. So you might recall about a year ago when we spoke about durability we said it should be a neutral impact in FY16 and you'd start to see the benefits of it in FY17. That's really down to the ramp up plan. So we now have 110 plants that are using the new clinch nail guns. Now we've clinched about 22% of the pool, so we're still at the front of the program and, as I said, FY16 was supposed to be a neutral year for us which is what you're seeing in plant costs but we will start to see incremental benefits of plant costs from FY17 onwards.

Simon Mitchell: (UBS, Analyst) Okay. Just one final question on the recycled business; you mentioned a one off inventory with revaluation, is that part of the US$25 million drop in profit? Has that been taken above the line?

Zlatko Todorcevski: No, it is part of the US$25 million. Just to be clear on that impact Simon, as Tom was talking about in the presentation, we reached in some grades a ceiling on our ability to increase prices. You might recall we had been aggressively taking prices because of core inflation and as we built up inventory I think what caught us out was having some inventory that we'd acquired at a value that was higher than what we could sell it for. So we took that but we took that to P&L.

Tom Gorman: I think the thing that we're really working with on this business is we're bringing a level of analytical rigour that I have to say, here before, hasn't really existed in the business. Look, there are going to be some issues here where as we try to define the points on inflection, particularly understanding price elasticity in the market - that's really where we got caught out, we were going hard on price here because, as you know, as whitewood prices go up in the long term that's great for our pooling business. So we're trying to drive that outcome. We found the point, unfortunately we drove a little bit past it with some inventory and we had to step up to that charge. But the team is on top of this, we think we've added a lot more operating focus to the business and I'm sure Tracy and this team will get this under control this year.

Simon Mitchell: (UBS, Analyst) Okay, thank you.

Raluca Chiriacescu: The next question is from Sam Dobson at Macquarie. Please go ahead Sam.

Sam Dobson: (Macquarie, Analyst) Good morning everyone. I just have a couple of questions. Just if I could start with pallets EM, sort of the margin there sort of continues to be pretty strong, 26% at the half and now 26.4%. Can you just give us a sense of what's driving that performance? Is it simply leverage in the business or is it any underlying costs that you're taking out that we should be thinking about?

Tom Gorman: Thanks for your question Sam. You know we've talked about this a fair bit. I mean what's really driving the performance in Europe is outstanding efficiencies against essentially no cost inflation. So in a way there's a free kick here. We're in an environment that has very, very low cost pressures but our ability to deliver efficiencies within our own business, whether it's through network optimisation, the introduction of automation into our facilities, the continued work that we're making in our logistics profile, all of those things come together and typically we do that to offset cost pressure. But when it comes to Europe we more than offset the cost increases. We have said this all along, that margin expansion that doesn't come on the back of the customer we're happy to take. So there is no price here, this is not about us taking price increase. In fact, you will see that we've created a bit of a fighting fund here to make sure that we can continue to be aggressive in the face of the competitive pressure in Europe and I think we've been very successful.

The commentary that we made relative to all of our major contracts being renewed and not losing any significant customers to our competitors was critical. I would also add that as we're renewing our customers, particularly in Europe, we are lengthening the contract period. So this gives us a level of stability and certainty and takes the oxygen away from our competitors and that's what we're trying to do.

Sam Dobson: (Macquarie, Analyst) Right, okay, that's great. It leads into the next one quite nicely actually. You've mentioned and you just mentioned then around not losing any contracts that came up for renewal during the year. The discussions that you're having with your customers, can you give us a sense of how they're developing and I guess, you've kind of answered whether they're around price, but are customers starting to recognise the benefits of some of the supply chain initiatives of BXB Digital and those type of things?

Tom Gorman: Look, BXB, that's a long bow to say that - we can spell it, that's all we can do at the moment. We haven't proven anything there. I think what's really being recognised within the company is we have a go to market strategy that has shifted us from being a purveyor of pallets to be a solutions provider. In the pallets business the guys have worked tirelessly to deliver that message but it's not just a message, it has to be a series of behaviours. So our ability to actually solve their solutions has increased significantly. I think the strength of the organisation is being recognised on that front. So I think that's the first thing.

I think secondly, the ability to lengthen the contracts with our customers is a sign that they see the improvements and that we're committed to those improvements going forward. So, we don’t share this data publically but we share it with our board, we share through the management team. But there are a number of metrics that are important to us. Our net promoter score is critically important and our NPS scores, across our entire business, have been improving steadily over the years. This gets at issues like value, it gets issues at ease of doing business, how we interact with our customers. Look, we're a long way from perfect but the progress that we have made I think manifests itself best in our ability to grow the business and to retain the customers. The customers will always talk about price and if they're not, they're not paying attention. So they will always do that and we need to make sure that we're price competitive and that's why we're so focused on lowering our overall cost so that we can deliver the solution to the customer at the price that they demand and not have adverse margin impact to us. Thus far we've been able to do that.

Sam Dobson: (Macquarie, Analyst) Okay, that's great. You touched on this briefly previously, but transport cost - I mean they've obviously been a focus over the last couple of years, FY16 transport costs in the Americas was a percentage of sales, were kind of 19% which looked fairly stable versus the first half. Can you give us a sense of what we should be expecting going into FY17?

Zlatko Todorcevski: Yes, Sam, just on that you've noticed a little bit of a tick up in 2016 and there's a couple of things to call out there. So look, although inflation in transportation in the US has moderated a little bit for FY16 it was still over 5% and that's well above what we'd say the historical run rate is. So our ability to mitigate that has been helpful but there still is quite high inflation. The other thing to call out in FY16 is, as we said during the presentation, because of our network and the strength of the network our ability to deal with customers that don't necessarily have the profile that some of our competitors might be willing to take on, we think, gives us a competitive advantage. So we are happy to take on customers that might have higher exposure to what we call non-participating distributors. Now that does come with a higher transportation cost because they are generally more complex to collect and it comes with higher transport costs, as I said, as a result of that.

But we've also called out is that there's an element within our price increase within the US business that's related to these NPD up charges. So when we look at a contract renewal or a new customer that comes on board we're always focused on making sure that we can more than offset those costs and that that profile works well for us.

Tom Gorman: The other thing, just to reiterate what Z said here, is that complexity is actually good for us. But what's critical when you have the complexity is that you have to understand your cost to serve and I think around the globe our teams really have a great grasp on that cost to serve. Then when we turn that into our activity based pricing methodology we're happy to take on the complexity but we have to get the compensations associated with that complexity. The way you judge it very simply is what's happening to our return on capital and what's happening to our margins? So, if losses go up a bit that's not the worst thing in the world if we're pricing for it appropriately, if transport costs go up a bit, not the worst thing in the world if we're pricing for it appropriately. So we'll continue to manage that complexity because we think it's one of the things that gives us the competitive advantage.

Sam Dobson: (Macquarie, Analyst) Okay, understood. Just, if I may, a final question for Stephen, so Graham is going to be located in London, I just wondered how the Board got comfortable, if that was appropriate versus being located elsewhere?

Stephen Johns: Well, I think the point that the board looked at was that the majority of our business is in the Northern Hemisphere, whether it's UK, Continental Europe or North America, that's where the majority of our operations are. It didn't take us long to work out that that's probably where the operational team should be, should increasingly be. We've seen here domestically the huge travel commitments that both Tom and Zlatko have had. We know and you know that Zlatko is retiring from the company partly because of the huge burden of travel and what that has done to his own balance between family and work. We are very cognisant of that. But the basic thing is that we are a very proud Australian company, we have an ASX listing here which is always going to remain. As I said before we are not seeking any other listings. We're going to maintain a corporate office here. But where the operations are, that's where the senior executive should be. In the succession planning process and in this whole selection process it didn't matter who was going to be selected, they were going to be resident in the Northern Hemisphere.

Sam Dobson: (Macquarie, Analyst) Right, okay, thanks very much.

Raluca Chiriacescu: The next question is from Matt Spence at Merrill Lynch. Please go ahead Matt.

Matt Spence: (Merrill Lynch, Analyst) Hi guys. Just picking up on a comment that's Zlatko made earlier about pallets Americas and not looking at it first half versus second half. I mean the first half EBIT Margin, Zlatko, was up 100 bps, versus PCP, the second half EBIT Margin was down 100bps versus PCP. People are going to look at it first half versus second half. Then assuming that a lot of that is down to CHEP Recycled, you've got invested capital of US$2.4 billion in pallets Americas, how much is that CHEP Recycled?

Zlatko Todorcevski: I think it's going to be quite small. We need to come back to you. The issue is that we've quite a deal of good will with the recycled business that obviously came with the IFCO acquisition and that creates some noise. But we'll have to come back and clarify that with you. Just to maybe clarify my earlier comment, so when I was talking about the first half versus second half split that was purely in reference to the recycled business. Yes, look a little bit of the underperformance was in the second half but it's not a huge amount when you compare to what we're talking about in the scale of that Americas business, particularly the inventory write-off, that did impact us in the second half. So there was a little skew but, as I said, there's not much to talk about.

But, just to maybe clarify your question, outside of recycle we did have some pooling impacts in the second half as well. So you know, we called out the fact that you've seen an increase in transportation costs. As I said, that is partly driven by the fact that we've been taking on customers that have a higher MPD profile and it comes with higher transportation costs. So it's not purely driven by recycle and although there was a marginally larger impact in the second half due to recycle compared to the first half it wasn't a great deal in the scheme of the business in the region.

Matt Spence: (Merrill Lynch, Analyst) Yes, okay…

Zlatko Todorcevski: Back on the point about the capital base of US$350 million for the recycle business.

Matt Spence: (Merrill Lynch, Analyst) Okay. So was it an EBIT loss in the second half of 2016 or it's just not earning the right returnment?

Zlatko Todorcevski: We don’t disclose that level of detail in a business that small.

Tom Gorman: It's clear the business isn't where we want it to be and there's work ahead and, as I said, the strategic linkages to the company are strong within recycled but there is some work to be done and we think we have the right actions in place and the right people driving them.

Matt Spence: (Merrill Lynch, Analyst) So then if the margin going backwards isn't as much down to CHEP Recycled - I mean it's more than just transport costs, what else is in there Zlatko?

Zlatko Todorcevski: Well you had higher plant costs Matt. So we called out the plant costs in the Americas were up and that was predominately driven by both Latin America and Canada. So you had higher inflation in Latin America and the efficiencies weren't able to offset that. We had higher repair costs in Canada and I think we also called out that there's a new plant that started up in Argentina. So if you look at the waterfall chart that we provided on the presentation, the actual delta from plant costs in the Americas was higher than transport costs and that was predominantly Latin America rather than the US.

Matt Spence: (Merrill Lynch, Analyst) Yes, okay. Tom, I mean in hitting that long term margin target you've always said, hey, it's pallets Americas and pallets RPCs margin expansion that's key there and we've seen this pallets Americas margin go backwards second half. Is it still those two divisions that are key to that half, that improvement that you are hopefully getting from margin expansion?

Tom Gorman: Are you talking about the return on capital objective at FY19, is that what you're referring to Matt?

Matt Spence: (Merrill Lynch, Analyst) Yes. You always said a lot of that had to come from pallets Americas…

Tom Gorman: You know I come back to the simple slide that was in the presentation. I think over the next three years there's really two building blocks here; we're going to deploy about a billion dollars of growth CapEx and that growth CapEx gets employed at a very high margin, a very strong margin. That has to happen, right, we have to deliver the growth. Now the majority of that growth is actually going to come from our well established businesses and we're confident that that growth exists. But that growth has to come and it has to come at good margins. That's about half of the walk. The other half of the walk comes from what you might want to refer to as just simply as margin expansion but it's really cost out and that is hinged on a couple of things. We must see the continual improvement in the US pooled business and that goes to the durability program. Z touched on how well we're starting, we're on track but, you know, this year is a big year for us, it has to produce a positive benefit and that benefit grows to 2018 and 2019, that has to happen.

The North American RPC business, that business is now, I have to say, heading in the right direction. The team in the US has done a heck of a job really attacking the issues. But that has to continue to improve. We've taken some pricing actions there, we have some pricing actions planned for FY17. We have to build out that network and get the network efficiencies. So that has to happen. I'm very confident that will happen in FY17, you'll see a big improvement in 2017 over 2016 in that business unit. But, look, this is a big complex company with a lot of moving parts and the parts have to fire as we plan them to fire. I think that's happening.

If you look at the year that we've just posted there are fundamentally two operating issues and one market related issue as we've been very open about. O&G is a market related issue and the creation of HFG gives us enormous optionality and risk mitigation going forward. The two operating businesses we think that we're on top of them. It's IFCO North America and the team has done a great job executing the plan and it's the US CHEP Recycled business and the team is in a position and they know what they need to do and there's no misalignment here. So we'll continue to drive all the businesses going forward but those actions are needed for sure to deliver the objective in FY19.

Matt Spence: (Merrill Lynch, Analyst) Right. Just one last - when will we get first exposure to Graham, when will we be able to meet him do you think?

Stephen Johns: Stephen here. Graham starts on 1 January. He is going to spend a fair bit of time down here in Australia and at that time we are planning to introduce him to the investment community, here to the analysts and also to the institutional investors. In the meantime Graham, whilst he's not worked with the company, is actually going to spend a fair bit of time on Brambles matters. He is going to go to two of Tom's executive leadership meetings, he's going to attend a board meeting that we're having in October which is our strategy board meeting. So he's getting himself up to speed and he's doing some various other things with the Company as well. But, he'll be getting himself up to speed during that time. But he starts here on 1 January and as I said, he'll be starting here in Sydney and there'll be opportunity at that time.

Matt Spence: (Merrill Lynch, Analyst) Thank you.

Tom Gorman: We'll come back to the community here and we'll work through Raluca to organise some opportunities to meet Graham. You guys were great to me when I came on board, you were great when Zlatko came on board so I think setting up some informal opportunities - it's always a little awkward in January because we're in a sort of a black out period when we can't really say much so we might just have to drink more.

Raluca Chiriacescu: The next question is from Cameron McDonald at Deutsche.

Cameron McDonald: (Deutsche Bank, Analyst) Hi, good morning guys. Just a couple of questions. You've previously given us sort of slides around the net new win profile, it doesn't seem to be that in this pack. Can you tell us what the run rate looks like on that net new wins into FY17?

Zlatko Todorcevski: We're just going to pull up the relevant stuff but I will say that the run rate is quite good, Cameron. Yes, so if you just think about the composition of it, so calendar year wins were particularly strong in 2016 right across all of the pallets businesses. So we didn't get as much of an impact from rollover wins in the prior years, so actually calendar wins were very, very strong. So there is a rollover impact but it's probably in the order of about US$50 million on wins and then rollover losses are a good deal less than that so we should get some tail wind to start the year. But I will say the impact in 2016 was predominately wins during the year.

Cameron McDonald: (Deutsche Bank, Analyst) Okay, so should we be taking that sort of US$40 million, US$50 million momentum into FY17?

Tom Gorman: Yes, it's just slightly better than that on a net basis. So you probably want to think net probably about US$50 million to US$60 million bringing it into the new year. So it was a strong year as Z mentioned in terms of wins during the year and there is a rollover fact. I think everybody knows how we calculate that. So it depends on the month that the business was actually secured but there is a fairly good tail wind coming into the year.

Cameron McDonald: (Deutsche Bank, Analyst) Okay, thank you. Then just on oil and gas, so you've given the adjusted starting base of $970 million for the underlying profit as at 30 June 2016, what exactly was the contribution from oil and gas just so that we know what the starting point is to back out - because obviously we've then got to put it through as associate so it looks like your division, that you're contributing to HFG only generated around about US$16 million EBIT and that was down from Circuit 30 the year before. Is that correct and should we be thinking that on a 50/50 basis that the Hoover contribution has had a similar sort of impact?

Zlatko Todorcevski: Yes, Cam, obviously we don't provide that level of granularity on a business that's so small. But look, you wouldn't be too far off if you used those kinds of numbers. There's no reason that Hoover or other participants in the market wouldn't have experienced something similar. As we said when we spoke about the HFG transaction though - so you've got to think about the fact that our share of the net profit after tax will be reported in that share of joint ventures and associates but we will then have, within our interest line, the benefit of the interest that we're charging on both the shareholder line and the deferred consideration.

Cameron McDonald: (Deutsche Bank, Analyst) Yes, that's fine.

So going forward though in terms of your return targets are we adding back the share of associates' income? Because we certainly - I mean we - but we don't add back the net interest received?

Zlatko Todorcevski: No, no we don't. So the interest is out. The share of the net income is in and obviously we have the investment in HFG that we carry on the balance sheet.

Cameron McDonald: (Deutsche Bank, Analyst) Yes, okay interest out, okay. Finally, just for Stephen, I think is - should we assume that now that the CEO has been appointed that the CFO appointment should be readily forthcoming and we should assume that that should also be based in London?

Stephen Johns: Thank you, it's a very good question and the answer is yes to both of those.

Cameron McDonald: (Deutsche Bank, Analyst) Okay, thank you very much.

Raluca Chiriacescu: The next question is from Scott Ryall at CLSA, please go ahead Scott.

Scott Ryall: (CLSA, Analyst) Thank you. Stephen, thanks very much for being on the call, it's very rare that you get a Chairman hanging for this long. So thank you.

My main question to you, and I might do something I rarely do which is echo your comments with respect to Tom's achievements over the last seven years. But I guess as a lead-in what do you expect out of the new CEO that might be a bit different given his background?

Stephen Johns: Well, first of all it's great to be able to have the opportunity to come on this call. Tom doesn't allow me to do this too often. I had to force my way in and the only way I could get in was to get him to retire. But, no seriously I didn't get him to retire, he is retired and we're very sad to see Tom go. All the things I've said about Tom publicly and also things I've said privately are Tom is a CEO of the highest order, and probably say it's a hard act to follow.

But I think the positive is that the company is in terrific shape. It's got a strong financial position, a very good balance sheet. It's got a strategy which is well articulated both internally in the company and externally. I think by and large I can say with some degree of confidence that you guys have understood what Tom has been doing and how he has articulated the strategy. So that puts us in a very good position. It puts the CEO in an excellent position to be able to come in and build on the legacy that we've got here. It's not just Tom, of course, but his senior team. Also, as I said earlier on, the very strong depth of management that we have right throughout the organisation.

I imagine that if Tom had chosen to stay on as CEO for a few more years he would have developed on the strategy and continued to take the company to an even higher level and to even greater success. That's really what we as a Board are expecting Graham to do when he comes in as the CEO.

Now it's really important to point out, I think it's important to point out, that Rexam had a lot of similar characteristics with Brambles. It's got a large industrial base with a large blue collar workforce, just as we do. Many of the customers that Rexam have, or had, are customers that we have here at Brambles. Graham shares a lot of Tom's views - not in discussion with Tom but in discussion with the Board members about the importance of focusing on customers, which is what he had a great reputation of doing at Rexam. That he brings strong financial skills, which Tom has as well. I think he is a proven CEO in a major listed public company and that is a great benefit, as we see it.

I, from my own personal experience as an executive, I understand the big step up it is from being a business unit leader to being a leader of a public company. It's a very different activity. Sometimes the differences are subtle but nevertheless they are very important. So we know that he has that experience and expertise behind him.

So it's a little trite to say it's business-as-usual, that is an expression I have been using, but in a sense it is. The Board is totally supportive of the strategy that Tom and his team have implemented over the last six or seven years of Tom's tenure as CEO. We believe that strategy at a high level will continue. We also believe that change is necessary. Tom has enacted a lot of change within our organisation in the context of the articulated strategy.

So that is what we're expecting from Graham, and we expect great things from him.

Scott Ryall: (CLSA, Analyst) All right, great, thanks. Then the other question I have is for Zlatko. You mention on slide 12 significant inflation in pallet cores as a challenge for the recycled business. Can you just make a comment on how you're seeing the costs around your pooled pallets, please?

Zlatko Todorcevski: Well actually the cost of acquiring pooled pallets hasn't materially changed to be frank, Scott. So cost of lumber - you might recall a couple of years ago we saw a sharp spike in the cost of lumber in the US particularly as we saw housing starts increase. The last two years it's actually been fairly moderate so we haven't seen that really change. What we actually implemented after we saw the sharp spike in cost of lumber in the US was a procurement strategy that looked at alternate sourcing. So we now not only source pallets and lumber from the US itself for the North American business, but we also source it from Latin America and other markets. So that's helping to mitigate any kind of volatility we see around lumber. But the actual acquisition cost hasn't materially changed.

Scott Ryall: (CLSA, Analyst) Okay, can you just give me a bit more colour then…

Tom Gorman: …on the recycled business, it's not just the input cost, it's really availability and we've seen times when the prices have moved and they almost seem counterintuitive. But if there are not a lot of white pallets out there prices go up.

When you have an excess prices come down. It's also very much a regional business. So understanding the price elasticities in the general trading area is also critically important. So it doesn't always move as you would expect it to move with blue costs.

Scott Ryall: (CLSA, Analyst) Aha. Yes, so it's just more plain old supply demand imbalance?

Tom Gorman: It is. It's a trading business.

Scott Ryall: (CLSA, Analyst) Yes.

Tom Gorman: You have to secure the cores, we refer to them as cores. You do some minor light repair and then you sell them. So what you want to do is hold very little inventory. You want to move that inventory quickly and you want to buy well and sell well. You want to buy low and sell high. In the process of really understanding the elasticities in a number of regions, we just got that equation wrong for a short period of time.

Scott Ryall: (CLSA, Analyst) Okay, that's all I had. Thank you.

Raluca Chiriacescu: Owen Birrell from Goldman Sachs is next. Please go ahead, Owen.

Owen Birrell: (Goldman Sachs, Analyst) Hi, guys. Look just a couple of questions from me. Firstly just looking at 2017 and I guess some of the outlook comments you've mentioned. Firstly just on the CapEx, great guidance, $400 million for next year and some good splits between mature emerging, IFCO and containers. I'm just wondering if you can give a sense of what the actual incremental return on capital and on each dollar spent into each of those businesses is to give us a sense of, I guess, what the opportunity is for those businesses or those segments going forward.

Just a second question around the US pallet durability program. You've mentioned 22% of the pool is now - of the US pool now has is clinch nails. What do you expect the improvement in the life of a pallet to be under this new technology?

Tom Gorman: So, on the first question we definitely can and we definitely won't. So we're not going to disclose by every piece of our business where the return is. I think what you can definitely count on, however, is that the incremental returns on our business exceed the target that we've established in FY19. So what we're really saying is that when we put a dollar to work the incremental return on that dollar should be greater than the 20% objective that we have. Broadly speaking across the business that exists across the Group. So that is the first thing.

For us to get into the specifics of each new contract won or each new market entry, look that's a level of disclosure that's unnecessary.

Owen Birrell: (Goldman Sachs, Analyst) Can I have a subsequent question to that?

Tom Gorman: Do you have a follow up question to that?

Owen Birrell: (Goldman Sachs, Analyst) Yes if I look at that, you've got 35% of your CapEx going to mature markets. You've got 35% going to emerging markets. Is it fair to assume that the incremental returns in each of those markets are broadly equal given that the allocation of the capital is broadly equal? Or is it more about the opportunity that's being presented to spend that capital within those markets?

Tom Gorman: No, it's very much the latter. So I mean what I can tell you is that the return profile are all extremely attractive. But obviously the return profile by markets are different. But at the end of the day we generate quite a bit of cash for reinvestment in growth. Everything that we do has a focus on a bare minimum of exceeding our cost of capital. We're well beyond that at a 20% target. So there are some markets that have particularly unique and high returns on capital and there are others that are lower than that but still well above our cost of capital and above the 20% objective. So it does vary and it won't surprise you. It varies by competitive intensity. It varies by maturity of the market. It varies by ability to grow into new verticals. So there are multiple issues that drive how margins are affected.

I will say though that whenever it comes to either new business or renewed business, at a certain level of capital everything gets approved centrally. So our ability to control our invested capital is quite strong.

Your second question was really about the changes that we're making to the durability in the US and how does that impact the life of the pallet? Look, fundamentally what we're trying to do here is make the pallet more durable by both using the clinch nail and the nail plate strategies. We tested in the lab, it works. Early days it definitely is working, but we've not really sat down and said look, instead of a 10-year life is this an 11-year life? I don't think that that's really the salient issue for us. The real issue for us is how do we drive our cost of repair down and continue to deliver to the customer the quality level that they demand of a pooled pallet. So that's really what we're focusing on.

It would take a number of years for us really to have enough live data to say, look the pallet is lasting quite a bit longer. I think we're ways away from even considering that discussion.

Owen Birrell: (Goldman Sachs, Analyst) You mention that the biggest impact will be in - well your staff will see the impact from FY17. Is it fair to assume - I mean what sort of proportion of the pool do you think will be converted over to the new technology by the end of FY17?

Tom Gorman: Yes, so it's not - so it's - let me just explain how it gets done. So on the nail plate, the nail plates only come in new purchases. So it'll take a longer period of time to get the nail plates across. On the clinch nail that happens whenever that's - when a pallet comes into the facility and that specific board needs to be replaced. When it goes across the repair bench our repair associate then replaces it and uses the clinch-nail. So, as Z said, I think we're at 22% at the end of the year. Directionally, we'll get to the exact number, but directionally that will probably be doubled by the end of this year.

Owen Birrell: (Goldman Sachs, Analyst) So it could be about five years before you've turned the entire pool over?

Tom Gorman: I'm sorry, say that again.

Owen Birrell: (Goldman Sachs, Analyst) So it'd be approximately around about five years before you turn the whole pool over?

Tom Gorman: Yes, if you assume that we can do about 20% a year. I would just say that this year is not a full year measure, because we've launched it during 2016. Our ability to convert the plants, it took a little bit of time. So I think the actual number by the end of this year is going to be closer to 40% in terms of what we've been able to effect.

A little bit of this, I mean I don't want to make excuses here, but a little bit of this is a bit random. So it depends on which pallets come back and how quickly they work their way through the system. I mean you know some of our pallets cycle very quickly during the year and some of them are out with customers for quite a long period of time. But, look we'll continue to report on this metric at each earnings' release. We don't mind sharing these data.

Owen Birrell: (Goldman Sachs, Analyst) Is it fair to say that if you improve the life of a pallet by 10% you obviously - you'll then reduce the cost, your CapEx by roughly about 10% and then your cost of repair by roughly 10%? I mean is that linear?

Tom Gorman: No, I mean I appreciate that. But that's not exactly the way it works. Because fundamentally the biggest issue is losses. So one of the reasons that depreciating over a 10-year life also works for us and this goes to a calculation that we have often shared with you around DIN, which is depreciation, the IPEP that we use for losses and then the net book value of compensations that we get. So there are multiple ways of looking and measuring the efficiency of our capital spend. But I would say though that we still lose pallets and we continue to do that. We'll never get to a position where we have 100% recovery. So the 10-year life also deals with losses over the cycle.

So, look I think that this is an interesting topic. It's not really that relevant in the near term. Once the pool is fully converted if we see that the durability has led to a significantly extended useful life I think we would address that issue then.

Owen Birrell: (Goldman Sachs, Analyst) That's great. Thanks, Tom.

Raluca Chiriacescu: The next question is from Nick Markovic from Morgan Stanley. Please go ahead, Nic.

Nick Markovic: (Morgan Stanley, Analyst) Thank you. I guess just an extension of a few questions on CapEx before. I'm just curious as to how you actually allocated the growth CapEx between - within the pallets' business between emerging and mature markets. Because if I reconcile that with the slide 51 on the addressable opportunity. I mean you've got a $9 billion opportunity you've quantified for North America and Europe and the rest of the world is $2.7 billion. You have the growth CapEx next year between pallets is split relatively evenly between mature and emerging.
So, can you just talk to, I guess, how you decided to allocate that CapEx for next year?

Tom Gorman: Yes, I think that sometimes when we show data like this it oversimplifies the process a bit. When you have big upside that doesn't mean in one year you go and get all that upside. So if there's a billion dollars of white space it isn't that you go out and get that billion dollars in the year.

So the way the process works quite simply is we develop each year a 5-year plan and a budget. As part of that 5-year plan we look at the competitive intensity in each market. We look at our opportunity to win business in those markets and we look at the financial structure in each of those markets. Then each one for the business unit teams they come with their projected plans for growth. Growth for us is really pretty simple. We look at where do we think price will be. Where do we think organic will be and then really the conversation comes down to how can we expand our market share?
So we put pressure on all the organisations to grow market share. In the more well established businesses, growing share is more difficult. Generally we have a competitor there. That does actually create some competitive intention - intensity. The penetration in the market is generally higher than in the new markets. The complication in the emerging markets, however, is that we are generally competitor free in those markets but we're actually introducing a different service. So it takes a while to convert users from a one-way disposable solution to a pooled solution and that just takes time to get there.

You also have to build out the network. You have to make sure that you have the right sourcing patterns for your timber et cetera. So it really isn't an issue where - we're in a very fortunate position. We're not in a position where we're really cutting great opportunities off. The opportunities that we don't pursue are the opportunities that don't reach the hurdle rates that we're going after.

If in fact we had more opportunities at very high rates of return we would fund those opportunities. But we're in a situation today where we're funding our growth from our - essentially from our own cash generation and all of those opportunities are in excess of our cost of capital.

So, I don’t know if the question is why aren't we growing faster? That's probably fundamentally the question; the question that we often wrestle with ourselves. But these are growth rates that we're comfortable that we can manage. The financial strategy is entirely consistent with the business strategy. So the actions that we're going after and initiating we have the funding to deliver those actions.

As I said, we're still - what you have here in Brambles is a company that had - that delivers pretty sound growth at high single digit and we're still able to deliver that positive operating leverage to the rate of revenue growth.

Nick Markovic: (Morgan Stanley, Analyst) The question wasn't around the pace at which you're trying to target that growth. It was more around the allocation of growth CapEx. I suppose looking at the opportunity that you've quantified the bigger market in Europe and the US I would have thought would be more attractive to put more CapEx in near term, not necessarily the amount of CapEx, but just allocate more CapEx near term as a higher return and lower risk growth option than emerging markets.

Tom Gorman: Yes, but remember that when you look at the core markets, the well established markets, you're looking at very muted pricing environments - in Europe essentially zero. You're looking at muted organic growth. So again 1% to 2%, in many cases closer to 1%. So the growth that we're getting is actually coming from net new wins. So our market expansion is quite strong. If you look at the data that we presented to you in the mature markets last year, that's a heck of a story on net new wins. So our market share is - growth is very, very strong. The vast majority of our growth is coming from net new wins.

Then if you look at the emerging markets, look that's an area that the competitive intensity is lower. It takes a little bit longer to institute pooling as a service, but once we get there we can go pretty quickly. If you look at the growth rates, I mean we target 15% growth in emerging markets and the vast majority of that is net new wins. So it's market share growth. So, I guess we think we've struck the right balance between the two.

If we had limited capital, we would put it to the highest return businesses. But all of the businesses that we're funding have strong returns and we're able to manage that mix well with the capital base we have.

Nick Markovic: (Morgan Stanley, Analyst) Okay, and just a last one on that then. I mean 25% of growth CapEx is going into IFCO, RPCs. IFCO, RPC, ROIC is well below Group returns. So, how do we get comfort that incremental CapEx going in there is achieving that 20% plus ROIC that you just spoke to?

Tom Gorman: Well the IFCO marginal returns far exceed the target that we've established for the medium term. The challenge that you have with the IFCO business is that there is a big chunk of goodwill sitting on that acquisition and we in no way are saying that we don't have to get a return on the total. We absolutely agree with that. But we bought IFCO because we thought we could grow it aggressively. Every dollar that we invest on the margin returns well in excess of that medium term objective in Europe. There is no question about that.

We have also been upfront that in the US, we like that business a lot. We have a very strong market position. That market is still developing. It's still a very immature market in terms of RPC usage. We are going to continue to grow out that market and use our first mover advantage to establish the financial structure in the US. So in the near term the returns do not equal the returns that we're getting in Europe. But this is a longer term play to position us in a market where we can be a very strong player and satisfy customers for many years to come.

So, look this is not just about - we are planting seeds for the future as well as harvesting businesses today. I mean it's a classic portfolio management that we're providing here. There are businesses that have lower returns on capital, but they are the future of the company and we'll continue to invest in them. Then there are businesses today that the returns are incredibly strong. But there isn't enough opportunity in those businesses, so we continue to build out and diversify the opportunities going forward.

Nick Markovic: (Morgan Stanley, Analyst) Understood, thank you very much.

Raluca Chiriacescu: The last question is from Paul Butler from Credit Suisse. Please go ahead, Paul

Paul Butler: (Credit Suisse, Analyst) Hi, thank you. Firstly a question for Stephen. I appreciate you've reiterated the Board's commitment to the FY19 target. But I just wonder if you could comment on the extent that Graham has been able to familiarise himself with the business and the extent that he's also committed to those targets and whether his compensation is going to be tied to those?

Stephen Johns: Well thank you, Paul. Firstly let me just make it very clear that Graham hasn't joined the business. He's just been appointed today. He's obviously done his own due diligence on us before accepting the appointment and we've done ours on him before offering him the appointment. So this confirmation is current management headed by Tom and the current Board headed by me.

It, as I said earlier on, that if we believe that this target of ROCI in FY19 was inappropriate, inadequate or not going to be achieved we certainly would be making that sort of announcement to the market. But we are fully, as a Board, fully supportive of that target.

Now Graham will join the Board and the Company next year. He is doing a lot of homework ahead of time, but it all starts on 1 January. No doubt he will spend time with Tom in the transition period. He will spend time with me during that period and then beyond and he will form his own opinions. But I think the information that Tom and Zlatko have presented today and as they have gone through that in even more detail with the Board, we still support and will continue to support and there is no backing off from that. We support that target and believe it will be achieved.

Paul Butler: (Credit Suisse, Analyst) Okay, thank you.

Tom Gorman: If I could just add in - for Stephen on that point. Look, the hearts and minds of the organisation are very, as I said earlier, are very in tune and aligned with what we're trying to do here. The compensation systems are exactly that. So we present a 5-year plan to the Board every year. The first year of that 5-year plan is the budget. So short term incentives are built around that budget, that now is FY17. Our long term incentives are 3-year incentives which take us to 2017, 2018 and 2019. So the 2019 objective is included in everyone's long term incentives here. I think that's a positive alignment. Then as we go to 2018 and 2019 they then become, in essence, the years in that plan and that aligns us both short term and long term.

So, look the CEO is one individual, obviously an important individual. But throughout the organisation I believe that what we're trying to accomplish is embedded deeply in the management teams around the globe and the alignment, frankly, it's the best I've seen since I've been here, and that's going to be a real strength for Graham to leverage that alignment once he gets on board.

Stephen Johns: Could I just say, actually what Tom has said. That Graham's focus is very similar to what Tom's focus is from a business point of view on customers, on appropriate returns to shareholders. Obviously on understanding the needs and requirements of employees, so he understands the balance, I believe very, very well. I think he certainly understand the importance of ROCI as a fundamental metric. I think if you go back and check some of the historical records of Rexam in the UK you'll see that they had, under his leadership, they had a big focus on ROCI. So I don't think fundamentally we're going to find any great difference between us and Graham when he comes in in terms of objectives and understandings and appreciation of what is important in terms of achieving for customers, for employees and for shareholders. And ROCI is one of those that's important for shareholders, not the only thing but it certainly is important.

As far as remuneration is concerned, which I didn't address, Tom kind of did just now - but as far as Graham's remuneration it's clearly set out in this morning's announcement. He has a base salary but his participation in the short term incentive plan and the long term incentive plan is exactly the same as everybody else in the organisation. It's part of the existing scheme and no different to what Tom has enjoyed and experienced over the last few years.

So, I'm very comfortable. Obviously I'm delighted about Graham joining the company with his experience, expertise but also his alignment with - from his Rexam experience with what we do here at Brambles.

Paul Butler: (Credit Suisse, Analyst) Okay, good. If I could just ask a couple more. On slide 44 you showed the replacement CapEx to sales ratio is coming down. Could you comment on - I mean is the hook nails and nail plates partly behind that and how do we expect that to continue?

Zlatko Todorcevski: No, it's not really, Paul. So the clinch nails, as I said, we've only penetrated 22% of the pool and that started in FY16. The nail plates in the US market - look we're probably at mid-single digits in terms of penetration in the pool, so still a very, very long way to go. But this chart that you refer to, it's one that we've been quoting for quite some time and in fact we did talk about it a the market briefing we had in December 2013.

The reason we provide it is because irrespective of what we do on durability what we're looking to do is be more efficient in how we utilise the pool, and that has been an ongoing focus for as long as we have been running pools, to be brutally frank. What we do want to do with this chart is show you that as we think about replacement CapEx that we're becoming more efficient on that as we continue to grow the business. So what you should take away from this is that's been a continued focus. It's independent of what we do on durability.

Paul Butler: (Credit Suisse, Analyst) So, I mean do I read into that that the durability is better or that you're just able to source pallets more cheaply?

Zlatko Todorcevski: No, it's not to do with sourcing of that, it's really just down to the loss experience as you grow the business. As you’d know, in particular, in the US we've put a lot of focus on that over the last four or five years with a great deal of success. So that's adding a massive contribution to it.

Paul Butler: (Credit Suisse, Analyst) Okay.

Tom Gorman: Well if you think about our business the offering on the pool business it's about loss velocity and damage. So if we can improve velocity, meaning improve the turns of the asset and if we can reduce losses the capital efficiency of the business really improves. If you can reduce damage, which the durability program is about, that really helps you on the income statement. So you're driving earnings with damage and you're driving your capital base with velocity and losses.

Paul Butler: (Credit Suisse, Analyst) Okay and earlier, I think, Zlatko, you made a comment that some of the new business you're winning in the US is with customers that are more difficult or costly to serve and are not attractive to your competitors. I mean on those businesses are you getting a margin and a ROIC that's above the existing average?

Tom Gorman: Yes, so look I think the key point is that our business is a network business. So the denser the network, the easier it is and the more cost efficient it is for us to serve our customers. So what Z was talking about is something that we think is a competitive advantage.

So if a customer comes to us that has a very complex distribution profile, that is something with our extensive network that makes it easier for us to manage that profile than it might be for one of our much smaller competitors. So that is the first thing.

The second thing is that we do a very extensive analysis of their distribution profile and then we incorporate that into what I referred to earlier as our cost-to-serve. So once we understand their distribution profile, we then look at what our cost-to-serve is and we price it appropriately. So, I wouldn't necessarily say that the returns are higher depending on the profile, I would say that they are appropriate based on the profile.

Paul Butler: (Credit Suisse, Analyst) Okay, so if - I mean - so that growth is not going to be a contributor to improving the ROIC?

Tom Gorman: No, I mean - so look it is, there's a component of it. So growth is a component of improving the return on capital as well as being more efficient in the base business taking cost out.

To give you an example, if a very large customer comes to us and has a very difficult distribution profile, we want that customer. We just want to price the business appropriate to the cost-to-serve. We've been open about this. The SMEs, the small-to-medium enterprise customers are customers that often have a slightly higher margin for us. They often are ones that fit into our network with a very low cost-to-serve, so we don't have a dedicated field force. We don't have dedicated salespeople working on that account so our cost to serve is a little bit lower.

But across the board, the return profile of our customers really differs not only depending on their footprint but also depending on the size of the business and how well they fit into the established network that we have.

Paul Butler: (Credit Suisse, Analyst) Okay, great. Thanks very much.

Tom Gorman: Thank you.

Raluca Chiriacescu: Thank you. That concludes our presentation for today. Thank you all for your time.

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