Financial Review

1. Financial Review

1.1 Group Overview

1.1.1 Summary of 2022 Financial Results

US$m			Change	
(Continuing operations)	FY22	FY21	Actual FX	Constant FX
CHEP Americas	2,950.8	2,627.5	12%	12%
CHEP EMEA	2,072.5	2,056.4	1%	7%
CHEP Asia-Pacific	535.6	525.9	2%	5%
Sales revenue	**5,558.9**	**5,209.8**	**7%**	**9%**
CHEP Americas	482.3	385.5	25%	25%
CHEP EMEA	461.2	462.7	-	5%
CHEP Asia-Pacific	168.7	146.2	15%	20%
Corporate	(182.2)	(119.8)	(52)%	(50)%
Underlying Profit	**930.0**	**874.6**	**6%**	**10%**
Significant Items	-	-		
Operating profit	**930.0**	**874.6**	**6%**	**10%**
Net finance costs	(88.1)	(85.6)	(3)%	(4)%
Net impact from hyperinflationary economies[1]	(22.0)	-		
Tax expense	(248.2)	(257.5)	4%	(1)%
Profit after tax from continuing operations	**571.7**	**531.5**	**8%**	**12%**
Profit/(Loss) from discontinued operations	**21.6**	(8.9)		
Profit after tax	**593.3**	**522.6**	**14%**	**18%**
Average Capital Invested	5,248.2	4,930.5	**6%**	**9%**
Return on Capital Invested	17.7%	17.7%	-	0.2pts
Weighted average number of shares (m)	1,415.7	1,475.1	(4)%	(4)%
Basic EPS (US cents)	**41.9**	**35.4**	**18%**	**23%**
Basic EPS from continuing operations (US cents)	**40.4**	**36.0**	**12%**	**17%**

Note on FX: The variance between actual and constant FX performance reflects the appreciation of Brambles' reporting currency, the US dollar, relative to key operating currencies, primarily the Euro.

FY22 Operating Environment

In FY22, Brambles continued to play a critical role in supporting customers as they responded to unprecedented disruptions to global supply chains.

The ongoing impact of the COVID-19 pandemic and increased geo-political tensions resulted in significant inflationary pressures and shortages of critical inputs.

These shortages impacted transport capacity and labour availability driving increased costs and operational inefficiencies across global supply chains and Brambles' own operations.

Global lumber markets were particularly affected, with record levels of inflation and lumber scarcity impacting the supply and price of new pallets. These factors contributed to industry-wide pallet scarcity, which was further exacerbated by higher customer and retailer inventory holdings to de-risk supply chains and an increase in the unauthorised reuse of pallets in response to pallet shortages and higher market value of pallets.

For Brambles, these dynamics resulted in lower pallet returns, extended cycle times and higher loss rates, which impacted volume growth and operational efficiency across its network.

In response to these challenges, Brambles added resources to existing asset management activities and introduced new initiatives supported by data analytics and digital insights to increase pallet recoveries from high-risk channels. Brambles also implemented new processes to refurbish pallets that would otherwise be scrapped and invested in an additional ~8 million pallet purchases across the globe to support its customers.

[1] The net impact of US$22.0 million reflects the application of AASB 129 *Financial Reporting in Hyperinflationary Economies*.

Notwithstanding these initiatives and capital investments, pallet availability remained challenging during the Year with sub-optimal pallet balances across Brambles' network.

This required allocation protocols to be implemented across major markets in the US, Europe and Australia.

Given the challenging operating context, Brambles' strong FY22 result, including maintaining ROCI in an extraordinary inflationary environment, is testament to the resilience of its business model, its ability to adapt to changes in the operating landscape and to recover material cost increases. This was achieved through a combination of pricing, surcharge mechanisms and efficiencies from supply chain investments including early benefits from the Shaping Our Future transformation programme.

Sales revenue from continuing operations of US$5,558.9 million increased 9% at constant currency. Price realisation across the Group contributed 9% to sales revenue growth**,** reflecting contractual price increases, including indexation, and additional pricing actions to recover material cost-to-serve increases across all regions.

Group volumes were in line with the prior year as pallet availability constraints moderated growth with new and existing customers, most notably in North America and the Asia-Pacific region.

Notwithstanding pallet availability challenges, net new business increased 1%, reflecting new pallet contract wins in Europe and the rollover contribution from a large Australian RPC contract, which commenced part way through the prior year.

Like-for-like volumes decreased 1% with growth impacted by ongoing supply chain disruptions, including pallet availability constraints, and some softening of consumer demand in key markets.

Underlying Profit and **Operating profit** of US$930.0 million increased 10% at constant currency, including short-term transformation costs of US$48.4 million largely relating to consulting fees and internal resources to support the transformation programme.

Excluding these short-term transformation costs, Underlying Profit increased 16% at constant currency as pricing initiatives, higher surcharge income and increased asset compensations combined with supply chain efficiencies offset cost-to-serve increases and additional costs associated with investments in the Shaping Our Future transformation programme. Underlying Profit growth also included a one percentage-point benefit from net plant cost savings due to lower pallet returns in the Year.

Group sales growth and incremental North America surcharge income contributed US$498 million and US$76 million respectively to Underlying Profit, and fully recovered operational cost increases, which included:

- Plant cost increases of US$175 million, reflecting input-cost inflation of US$183 million (primarily lumber), as well as other cost increases, including additional repair costs on pallets that would otherwise have been scrapped and plant inefficiencies from reduced pallet returns and lower levels of plant safety stocks across the network. These cost increases were partly offset by pallet durability initiatives to reduce damage rates in the US and Europe, lower storage costs and timing benefits relating to reduced repair activity on pallets due to lower return rates;
- Transport cost increases of US$154 million due to transport and fuel inflation across the Group of US$207 million and higher asset recovery costs in the US. These cost increases were partially offset by benefits delivered through network efficiency and collection optimisation initiatives and savings from lower deliveries, collections and relocations as a result of higher cycle times;
- IPEP[2] expense increase of US$38 million driven by First-In-First-Out (FIFO) unit cost increases and higher pallet losses in the Americas segment. The overall loss levels as a percentage of the pool remain unchanged year-on-year;
- Depreciation expense increases of US$34 million in line with pool growth and the impact of lumber inflation on pallet purchases in FY21 and FY22;
- Shaping Our Future cost increases of US$53 million, including US$48 million of short-term transformation costs in line with expectations provided at the 2021 Investor Day of ~US$50m. In addition, ongoing transformation costs increased US$5 million to support digital and data analytics capabilities as well as initiatives to improve customer experience; and
- Other indirect cost increases of US$29 million, including the impact of cycling one-off benefits in the Asia-Pacific region of US$11 million in the prior year, largely reflecting compensation on the mandatory relocation of a service centre. Overhead investments to support growth and improved commercial outcomes were partly offset by higher asset compensations of US$27 million.

Profit after tax from continuing operations of US$571.7 million increased 12% at constant currency, driven by the strong Operating profit result.

Net finance costs increased 4% with higher net debt to fund the share buy-back programme, which completed the return of proceeds from the sale of the IFCO business in 2019, and to support the increased cash flow requirements of the business during the Year. These higher cash flow requirements included a ~40% year-on-year increase in pallet prices and funding investments in supply chain and digital initiatives.

The net charge of US$22.0 million arising from hyperinflationary economies mainly relates to Brambles' operations in Türkiye, which was deemed a hyperinflationary economy in the last quarter of FY22. The trigger for hyperinflation accounting is inflation of over 100% across a three-year period.

[2] Irrecoverable Pooling Equipment Provision.

Tax expense of US$248.2 million increased 1% in constant currency, including the cycling of a one-off tax expense in the prior year, relating to UK corporate tax rate changes. The FY22 underlying effective tax rate of 29.5% decreased 0.3pts on prior year levels.

Profit from discontinued operations of US$21.6 million relates to the revaluation gain on the loan receivable from First Reserve as market conditions in the oil & gas industry improved. Prior year losses from discontinued operations largely related to the Kegstar business.

Return on Capital Invested of 17.7% was in line with the prior year despite material pallet price inflation and investments in transformation, which were offset by strong cost recovery and other efficiencies realised in the Year.

Cash Flow Reconciliation

US$m	FY22	FY21	Change
Underlying Profit	930.0	874.6	55.4
Depreciation and amortisation	691.9	664.3	27.6
IPEP expense	232.0	198.3	33.7
EBITDA	**1,853.9**	**1,737.2**	**116.7**
Capital expenditure	(1,652.3)	(1,055.0)	(597.3)
Proceeds from sale of PPE	172.5	145.8	26.7
Working capital movement	(7.1)	35.7	(42.8)
Purchase of intangibles	(19.8)	(21.3)	1.5
Other	25.4	58.7	(33.3)
Cash Flow from Operations	**372.6**	**901.1**	**(528.5)**
Significant Items	(0.5)	(0.9)	0.4
Discontinued operations	(1.8)	(7.1)	5.3
Financing costs and tax	(284.1)	(271.1)	(13.0)
Free Cash Flow	**86.2**	**622.0**	**(535.8)**
Dividends paid	(304.8)	(280.8)	(24.0)
Free Cash Flow after dividends	**(218.6)**	**341.2**	**(559.8)**

Cash Flow from Operations of US$372.6 million decreased US$528.5 million on the prior year as higher capital expenditure due to the impact of lumber inflation on pallet purchases and increased pallet cycle times more than offset higher earnings and increased compensations for lost pallets.

On a cash basis, capital expenditure of US$1,652.3 million increased US$597.3 million largely reflecting a ~US$470 million impact of lumber inflation on new pallet purchases in the current year.

On an accruals basis, capital expenditure increased US$650.4 million at constant currency, including ~US$520 million year-on-year increase in the cost of new pallets due to lumber inflation. Cycle time increases and replacement of lost pallets contributed ~US$155 million to the additional pallet capex and was partly offset by asset recovery and scrap initiatives, which delivered ~US$85 million in pallet savings.

The remaining year-on-year increase in pooling capital expenditure of ~US$60 million, reflected the one-off benefit in the prior year from utilising plant stock to support demand, partly offset by cycling of higher volume growth in the prior year.

Due to lower pallet returns in the second half of the year, approximately US$180 million in pallet purchases are still required as at 30 June 2022 to replenish plant stock balances back to optimal levels.

Non-pooling capital expenditure was broadly in line with the prior year as semi-conductor and other component shortages delayed investments in service centre automation.

Proceeds from the sale of PPE increased US$26.7 million, notwithstanding a one-off compensation benefit relating to the mandatory service centre relocation in Australia recognised in the prior year. The increase in the current period reflected higher compensations for lost pallets in the North American, European and IMETA businesses.

The year-on-year change in working capital movements largely reflected higher trade and other receivables increases driven by sales revenue growth and increased inventory balances due to repair lumber inflation.

Other cash flow items decreased US$33.3 million due to movement on provisions for employee benefits and other non-cash adjustments mainly relating to asset disposals.

Free Cash Flow after dividends was an outflow of US$218.6 million, a decrease of US$559.8 million on the prior year, with ~US$470 million of cash flow impact from pallet price inflation.

Cash outflows relating to financing costs and tax increased US$13.0 million on the prior year, reflecting the reversal of the US$35 million prior year tax timing benefit, partly offset by current year tax credits in the US and UK.

Dividend payments increased US$24 million as higher dividends per share relative to the prior year, were partly offset by a decrease in the shares on issue due to the share buy-back programme.

Segment Analysis

1.1.2 CHEP Americas

US$m			Change	
	FY22	FY21	Actual FX	Constant FX
Pallets	2,914.2	2,590.0	13%	13%
Containers	36.6	37.5	(2)%	(2)%
Sales revenue	**2,950.8**	**2,627.5**	**12%**	**12%**
Underlying Profit	**482.3**	**385.5**	**25%**	**25%**
Average Capital Invested	2,659.9	2,449.4	9%	9%
Return on Capital Invested	**18.1%**	**15.7%**	**2.4pts**	**2.5pts**

Sales Revenue

Pallets sales revenue of US$2,914.2 million increased 13% at constant currency, reflecting pricing actions to recover record levels of input-cost inflation across the region.

US pallets sales revenue of US$2,148.0 million increased 11% at constant currency, comprising:

- Price growth of 15% driven by actions to recover the higher cost-to-serve, including operating and capital cost inflation;
- Net new business broadly in line with the prior year as pallet availability challenges limited growth with the business prioritising servicing existing customers; and
- Like-for-like volume declines of 4%, driven by supply chain disruptions, including the impact of pallet availability constraints.

Canada pallets sales revenue of US$353.5 million increased 13% at constant currency, largely reflecting strong pricing actions to recover cost-to-serve increases.

Latin America pallets sales revenue of US$412.7 million increased 18% at constant currency, driven by pricing actions to recover the cost-to-serve and like-for-like growth in the food and beverage sector.

Containers sales revenue was US$36.6 million, down 2% at constant currency due to lower volumes in the North America IBC business.

Profit

Underlying Profit of US$482.3 million increased 25% at constant currency with segment margin improvement of 1.7pts at constant currency, including a ~1pt improvement in US margins through strong pricing and increased surcharge income.

The segment profit contribution from sales growth of US$357 million and incremental gross surcharge income of US$76 million was partially offset by:

- Plant cost increases of US$137 million (excluding lumber surcharge), which included input-cost inflation of US$126 million, primarily relating to lumber. Other cost increases included additional pallet remanufacturing costs to reduce scrap rates and net inefficiencies associated with lower pallet return rates in the period. These costs were partly offset by damage rate improvements and lower storage costs in the US business;
- Transport cost increases of US$127 million (excluding surcharge income) due to transport and fuel inflation of US$139 million across the region and higher asset recovery costs in the US business. These cost increases were partially offset by benefits from network efficiencies and collection optimisation initiatives in the region;
- Depreciation cost increases of US$19 million due to pool growth and the impact of lumber inflation on unit pallet costs;
- IPEP expense increases of US$38 million driven by increased FIFO per unit pallet costs and higher losses in the region, despite loss rates benefiting from asset efficiency initiatives; and
- Other cost increases of US$15 million, largely reflecting overhead cost increases partly offset by higher pallet compensations.

Return on Capital Invested

Return on Capital Invested of 18.1% increased 2.5 percentage points at constant currency as strong Underlying Profit growth was offset by a 9% increase in ACI, largely reflecting higher pooling capex driven by cycle time increases and unit pallet price inflation.

1.1.3 CHEP EMEA

US$m			Change	
	FY22	FY21	Actual FX	Constant FX
Pallets	1,789.9	1,765.3	1%	7%
RPC	30.3	28.9	5%	7%
Containers	252.3	262.2	(4)%	2%
Sales revenue	**2,072.5**	**2,056.4**	**1%**	**7%**
Underlying Profit	**461.2**	**462.7**	**-**	**5%**
Average Capital Invested	1,978.7	1,943.5	2%	8%
Return on Capital Invested	**23.3%**	**23.8%**	**(0.5)pts**	**(0.7)pts**

Sales Revenue

Pallets sales revenue of US$1,789.9 million increased 7% at constant currency, reflecting pricing growth to recover cost-to-serve increases across the region and new business wins in the European pallets business.

European pallets sales revenue of US$1,577.5 million increased 7% at constant currency, comprising:

- Price growth of 4% largely reflecting contractual indexation and targeted pricing actions to recover input-cost inflation;
- Net new business growth of 4% driven by new customer contract wins in Southern, Central and Eastern Europe; and
- Like-for-like volume decline of (1)%, reflecting softening consumer demand.

India, Middle East, Türkiye, and Africa (IMETA) pallets sales revenue of US$212.4 million increased 8% at constant currency as price realisation across the region was offset by input-cost inflation and cost-to-serve increases.

RPC and Containers sales revenue of US$282.6 million increased 3% at constant currency, with:

- Automotive sales revenue of US$187.5 million, up 1% on the prior year due to pricing growth across the region and longer cycle times leading to an increase in daily hire fees in the North American automotive business. This was offset by issue volume declines from the impact of semi-conductor shortages on manufacturing activity levels in the industry;
- IBC sales revenue of US$64.8 million, up 8% on the prior year, reflecting pricing contributions and volume growth in the European IBC business; and
- RPC sales revenue of US$30.3 million, up 7% on the prior year, driven by volume growth in the South African business.

Profit

Underlying Profit of US$461.2 million increased 5% at constant currency despite significant inflationary headwinds. In constant currency terms, volume, price and mix contributions and net gains relating to higher pallet compensations of US$132 million across the region, were partly offset by:

- Net transport cost increases of US$49 million, as inflation and third-party transport scarcity resulted in US$66 million of incremental transport costs, which were partly offset by lower transport costs in the European Automotive business and network efficiencies within the European pallet business;
- Net plant cost increases of US$46 million, including input-cost inflation of US$53 million and additional costs relating to the heat treatment of pallets. These cost increases were partly offset by pallet durability improvements; and
- Depreciation increases of US$13 million in line with growth in the pallet pool and the impact of lumber inflation on unit pallet costs.

Return on Capital Invested

Return on Capital Invested of 23.3% decreased 0.7 percentage points at constant currency as profit growth was offset by an 8% increase in ACI, driven by the impact of lumber inflation on new pallet prices and additional pallet purchases to support volume growth and extended cycle times in the region.

1.1.4 CHEP Asia-Pacific

US$m			Change	
	FY22	FY21	Actual FX	Constant FX
Pallets	395.2	397.5	(1)%	3%
RPC	94.1	80.9	16%	21%
Containers	46.3	47.5	(3)%	-
Sales revenue	**535.6**	**525.9**	**2%**	**5%**
Underlying Profit	**168.7**	**146.2**	**15%**	**20%**
Average Capital Invested	610.4	569.6	7%	10%
Return on Capital Invested	**27.6%**	**25.7%**	**1.9pts**	**2.3pts**

Sales Revenue

Pallets sales revenue of US$395.2 million, increased 3% at constant currency driven by the Australian pallet business and reflecting price realisation to recover cost-to-serve increases and daily hire revenue associated with higher utilisation and longer cycle times in the market from increased inventory holdings across customer and retailer supply chains. These increases offset lower transport revenue in line with lower pallet issue volumes and return rates due to pallet availability constraints in the region.

RPC and Containers sales revenue was US$140.4 million, up 13% at constant currency, driven by rollover contributions from a large Australian RPC contract, which commenced part way through the prior year.

Profit

Underlying Profit of US$168.7 million increased 20% at constant currency and included a net benefit of ~US$10 million from lower pallet returns. These timing benefits were offset by one-off benefits in the prior year of US$11 million relating primarily to the compulsory relocation of a service centre in Australia. Excluding these impacts, the sales contribution to profit and incremental contributions from the Australian RPC business were partially offset by input-cost inflation and overhead cost increases in the region.

Return on Capital Invested

Return on Capital Invested of 27.6% increased 2.3 percentage points at constant currency as profit growth more than offset a 10% increase in ACI to support the Australian Pallet and RPC businesses.

1.1.5 Corporate

US$m			Change	
	FY22	FY21	Actual FX	Constant FX
Short-term transformation	(48.4)	-	(48.4)	(48.4)
Ongoing transformation costs	(60.2)	(56.9)	(3.3)	(4.8)
Shaping our Future transformation costs	**(108.6)**	**(56.9)**	**(51.7)**	**(53.2)**
Corporate Costs	(73.6)	(62.9)	(10.7)	(7.2)
Underlying Profit	**(182.2)**	**(119.8)**	**(62.4)**	**(60.4)**

Shaping Our Future costs of US$108.6 million increased US$53.2 million at constant currency, including short-term transformation costs of US$48.4 million primarily relating to consulting fees and internal resources to support the transformation programme.

Ongoing transformation costs of US$60.2 million increased US$4.8 million in constant currency, largely reflecting investments in digital and data analytics capabilities, and initiatives to improve the customer experience.

Corporate costs of US$73.6 million increased US$7.2 million at constant currency, primarily reflecting Brambles' share of the MicroStar post-tax losses and labour and insurance related overhead cost increases.