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Event Transcript

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Start of Transcript

Operator: Thank you for standing by and welcome to the Brambles Limited full-year 2020 results conference call. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question you will need to press the star key followed by the number 1 on your telephone keypad. I would now like to hand the conference over to Mr Graham Chipchase, CEO. Please go ahead.

Graham Chipchase: Good morning, everyone, and thank you for joining us today for our 2020 full-year results announcement. I'd like to start with a few key messages about the full-year performance. Overall, the performance reflected the efforts of our people, the agility of our network and the resilience of our share and reuse business model.

We delivered strong sales revenue growth of 6% at constant currency, in line with our objective for mid-single-digit growth. This performance reflected volume growth with new and existing customers across the pallet operations and ongoing price realisation, primarily in the Americas segment. Our underlying profit, including the impact of AASB 16, was up 4% as the strong pallets performance offset a 3 percentage point impact due to earnings decline in the automotive and Kegstar businesses. This performance was in line with the guidance we provided at our first quarter update.

We also made good progress across our Americas segment. Previously we outlined a number of initiatives to restore margins in our US pallets business. These initiatives included the accelerated service centre automation program, the lumber procurement program and a number of productivity and pricing initiatives. I am pleased to report that these initiatives delivered a 1% margin improvement in the period, which is in line with our commitment to lift US business margins by 2 to 3 percentage points by fiscal 2022. Our initiatives in Latin America also continue delivering results. The business delivered strong revenue growth, including price realisation, to offset the higher cost to serve in the region. In addition, asset efficiency improved significantly.

During the year we recorded a significant improvement in cash flow, driven by increased earnings, lower capital expenditure and improved cash collections across the Group. Our return on capital invested of 16.7% remains strong. During the year we reinforced our sustainability leadership by achieving most of the 2020 objectives. On the next slide I will discuss this in more detail.

When we first set our 2020 targets in 2015, the goals were considered very ambitious and in many cases we did not have fully defined pathways to achieve the objectives. As such, it is extremely pleasing to report that we have achieved the majority of our key targets. I would like to highlight the following achievements.

We are able to report that 100% of our wood comes from certifiable sustainable sources. We have reduced our carbon dioxide emissions by 33% since 2015, surpassing our goal of 20%. We helped remove 1.3 million tonnes of waste from customer supply chains and we have eliminated 76 million kilometres of trucking haulage through transport collaboration with our customers.

As a group we remain committed to our sustainability leadership position. As we look forward, our vision is to contribute to a more regenerative future. This vision will form the basis of our 2025 sustainability targets, which will be launched as part of our sustainability review scheduled for publication in September 2020.

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Now turning to our dividends and capital management program. In line with our dividend payout ratio policy, we have declared a final dividend of US$0.09, which will be converted and paid as AUS0.1254. This brings the total ordinary dividend declared for fiscal 2020 to US$0.18. This represents a payout ratio of 53%. This ratio is consistent with prior year and within our targeted pay-out ratio range of 45% to 60%.

During the period we also conducted significant capital actions relating to the proceeds of the sale of IFCO. In June 2019 we commenced our AUS2.4 billion on-market share buyback. To date, we have repurchased 91.7 million shares at a cost of AUS1.05 billion, representing 44% of the share buyback program. In October 2019 we returned AUS453.8 million to shareholders, comprising a capital return of AUS0.12 per share and a special dividend of AUS0.17 per share. As of 30 June 2020 AUS1.5 billion has been returned to shareholders, representing 53% of the AUS2.8 billion capital management program.

I would now like to take a moment to address the impact that COVID-19 has had on our business. Consumer staples account for 80% of Brambles' revenue and underpin the resilience and defensive qualities of the business. The impact commenced in mid-March with the outbreak of the virus in China, spreading across Europe and North America and more recently our emerging markets of Mexico, South Africa and Brazil.

In the initial phases of the pandemic, from March to April, the business experienced significantly heightened levels of customer activity, as pantry stocking and changes in consumer purchasing patterns prompted a surge in demand for consumer staples. Following this initial surge in demand, we have seen high levels of volatility in customer demand, as regions across the globe progress through the different phases of the pandemic, with government responses varying from country to country.

While revenues increased in line with elevated pallet volumes, servicing the additional demand and managing the associated volatility and disruptions across the network led to higher transport, handling and repair costs. Our most severely impacted businesses were the automotive container and Kegstar businesses, which collectively account for approximately 5% of our revenue. Underlying profit in these businesses in fiscal 2020 decreased US$23 million, driven by the significant decline in revenues in the fourth quarter. In addition, our US service centre accelerated automation program was deferred in mid-March, due to travel restrictions and broader safety concerns, before recommencing in July.

Now turning to our response to COVID-19. Throughout the pandemic and going forward, the health and safety of our employees and the communities in which we operate is our highest priority. From the very start of the pandemic we worked with a leading global safety and public health consulting group, to ensure our processes and responses were in line with best practice.

In our global service centre network we were swift to deploy additional hygiene and safety procedures, showing best practice and insights across the more than 60 countries we operate in. For office- based workers we quickly transitioned to working from home arrangements, providing our workforce with the necessary tools and support to adapt successfully to completely new ways of working.

Operationally, our focus has been on ensuring the continuity of supply to our customers, thereby ensuring the flow of life's essentials for communities around the world. This was an exceptional achievement by our people, who overcame significant challenges to ensure uninterrupted service and supply of pallets, crates and containers across our markets. In addition, we drove improved cash generation and increased our focus on cost minimisation.

With the easing of restrictions across the globe, our automotive container and Kegstar businesses are now back up and operating, though volumes remain well below pre-COVID-19 levels. Finally, as I previously noted, our US service centre accelerated automation program recommenced in July 2020 and we expect to meet our original FY21 implementation targets, including the completion of site upgrades delayed during fiscal 2020.

Now turning to slide 8 and our strategic priorities. Our long-term strategic goal remains unchanged. We are committed to being the global leader in platform pooling and insigh- based solutions to fast moving supply chains, delivered through our circular share and reuse model. We have redefined our focus across four strategic themes to ensure we are agile and responsive to changing needs, driven by increasing uncertainty and volatility. These strategic themes guide our decision-making across the Group and are integral to delivering superior and sustained value for customers, shareholders and employees.

We are committed to improve the customer experience through simpler processes, additional services and enhanced platform quality. We continue to invest in digital transformation, including through the Group's in-house technology hub, BXB Digital, to create distinctive new capabilities. We are constantly seeking to improve asset and network productivity, with ongoing programs of automation and process standardisation, to enhance the efficiency and resilience of our operations. In our quest for business excellence we are reinventing our organisation, technology and processes to be simpler, more efficient and effective. We are confident that the heightened focus on these strategic themes will deliver benefits to shareholders over the longer term.

Now turning to our full-year 2021 outlook. The COVID-19 pandemic has introduced significant operational and macroeconomic uncertainty, which is likely to last for an extended period. Our outlook for fiscal 2021 assumes ongoing demand volatility in the context of a weaker economic environment and recognises the inefficiencies which arise across our network during periods of volatility.

Within this context, the FY21 outlook is sales revenue growth between flat to +4% at constant FX rates, with improved underlying profit margins. Underlying profit growth between flat to +5% at constant FX rates. Free cash flow expected to fund dividends and core business CapEx with investments to support new business opportunities within the core business and to further development digital and efficiency objectives. Dividend pay-out ratio to be consistent with our dividend pay-out policy of 45% to 60% and share buyback program to continue, subject to the ongoing assessment of the Group's funding and liquidity requirements in the context of increased volatility and economic uncertainty.

Given the unprecedented nature of the COVID-19 pandemic and resulting volatility, it is difficult to forecast with accuracy the likely impact on Brambles' business in fiscal 2021. For this reason, Brambles will update its internal fiscal 2021 forecast after the first three months of trading and review guidance in this context. While July may not be representative of the full-year, due to phasing of government economic stimuli and the timing of known changes in customer contracts, Group revenues in July increased on a like-for-like basis 4% on the prior corresponding period, with high levels of volatility continuing across all regions. I'll now hand over to Nessa.

Nessa O'Sullivan: Thank you, Graham and good afternoon, everyone. Starting with an overview of our FY20 financial performance in slide 11, Group sales revenue growth of 6% was driven by our pallets businesses, which offset COVID-19 related challenges in the automotive container and Kegstar businesses, which arose primarily in the last quarter of the year.

Group underlying profit increased 4% and included a 3 percentage point benefit from AASB 16. Excluding this benefit, pallets sales contribution to profit more than offset the US$23 million earnings decline in automotive and Kegstar, COVID-19 inefficiencies and other cost increases.

The significant item expense in FY20 of US$28 million is a non-cash impairment of the Kegstar business in response to the uncertainties about on-premise consumption of beer due to COVID-19. Net finance costs decreased significantly during the year. Excluding the US$27.8 million of lease interest recognised due to the implementation of AASB 16, net finance costs decreased US$25.5 million, reflecting interest income from Australian dollar deposits and lower debt funded by the IFCO sales proceeds received in May 2019.

The after-tax loss in the current year discontinued operations of US$29.2 million largely reflects the significant item US$26.8 million after tax impairment charge, relating to the long-term receivable from First Reserve and is based on the

fund's exposure to the oil and gas sector and other uncertainties. This receivable is due to be repaid by First Reserve in 2026 and we will continue to monitor this with a view to full recovery of the balance and related interest.

The current year loss in discontinued operations compares to a profit in the prior year of over US$1 billion, which reflected the 11-month contribution to earnings from the IFCO business, as well as the gain on sale related to its divestment in the second half of FY19. This is the key driver of the 68% decline in profit after tax. Excluding the impact of IFCO, profit after tax increased 5% at constant currency over the prior year and underlying EPS of US$0.325 increased 8%, including the benefit of the share buyback program.

Turning to slide 12, to outline the operational and financial impacts of COVID-19 on our businesses. As shown in the chart on the left-hand side of the slide, over 80% of our revenues are derived from customers in the consumer staples sectors, primarily serviced by our global pallets businesses. COVID-19 led to spikes in demand for pallets during the second half of March and April, as our largest markets across Europe and North America went into lockdown and consumers stockpiled essential foods and household products.

This initial spike in demand and subsequent volatility, which carried through into May and June, resulted in higher revenues and additional costs associated with servicing this unexpected surge in demand and changes in network dynamics. These costs included additional transport miles and repair costs to service this demand, and further transport miles were also required to rebalance the pool in response to changes in network flows.

During this period we made a conscious decision to prioritise the efficiency and utilisation of the existing assets and to minimise the capital expenditure required to service temporary spikes in demand, which added transport and repair cost overall. This focus on disciplined management of capital and further improvements in cash collection has been key in maintaining strong cash flow generation and managing business risks, and this will continue to remain a key focus during FY21.

Our automotive container and Kegstar businesses, which account for approximately 5% of the Group revenue, have been significantly impacted by COVID-19. From April through to June, revenues declined significantly in both businesses. In automotive, this reflected the impact across the global automotive industry, while in Kegstar lockdown measures in key markets restricted on-premise consumption of beer. Despite cost reduction measures to offset these headwinds, the lower revenue in both businesses resulted in a US$23 million reduction in Group underlying profit. We expect FY21 underlying profit in these businesses to be below FY20 levels, with a progressive return to pre-COVID-19 levels expected by FY22.

Moving to slide 13 and the Group sales performance, we delivered growth in every segment as the strong performance in the pallets business offset the decline in automotive and Kegstar revenues, which is recognised in CHEP EMEA segment. Price growth of 3% was driven by pricing initiatives in CHEP Americas, reflecting the cost to serve in the region, as well as contractual price indexation in Europe and IMETA regions. Volume growth of 3% reflected ongoing expansion with new customers in all regions and like-for-like volume growth in the Americas and Asia Pacific regions. These increases offset lower like-for-like volumes in EMEA due to lower demand from existing customers in the automotive and Kegstar businesses.

Slide 14 provides an overview of the Group underlying profit performance. The strong sales contribution to profit of US$191 million, largely driven by the pallets businesses, offset cost inefficiencies due to COVID-19 and other cost increases across the Group. Depreciation costs increased US$19 million in line with the growth in the asset pool and investment in the US supply chain efficiency program. Net plant costs increased US$44 million, including labour and property inflation in all regions and additional pallet repair and handling costs associated with higher pallet volumes and demand surges, particularly in the fourth quarter, following the outbreak of COVID-19. These cost increases were offset by efficiency benefits from US supply chain programs.

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Net transport costs increased US$16 million, reflecting additional transport miles relating to the Latin America asset management program and higher pallet collections and relocations due to COVID-19. Despite lower loss rates overall, IPEP expense increased by US$33 million, reflecting higher FIFO unit pallet cost in all major markets.

Other cost increases included an US$18 million increase in corporate costs, reflecting investments in the infrastructure and sales tools and the global digital transformation customer experience and other Group-wide efficiency initiatives. The balance of the increase reflects investment in resources to support growth, network efficiencies, improved asset management and commercial outcomes across the Group.

Turning to slide 15 and our segment results and now starting with CHEP Americas. The Americas region delivered strong sales growth, margin expansion and underlying profit leverage in the period. Sales growth of 10% was driven by the pallets business, which benefited from pricing initiatives, ongoing expansion with new and existing customers and elevated levels of customer demand in the fourth quarter due to COVID-19.

Excluding the impact of AASB 16, underlying profit growth was 13% and margins increased by 0.3 points, including a 1 point margin improvement in the US business which was in line with guidance and delivered despite COVID-19 related cost pressures. The strong sales contribution to profit and supply chain efficiencies more than offset COVID-19 related plant and transport cost increases, property and labour inflation in the US, additional costs relating to the stringer-to-block pallet transition in Canada and the asset management program in Latin America.

Despite lower asset loss rates in the segment, IPEP expense increased due to higher per unit pallet cost, while overheads included costs associated with incremental resources to support growth and improved asset management and commercial outcomes in the region. Return on capital investment increased 0.9 points before AASB 16, driven by increased earnings and material asset efficiency improvements.

Turning to slide 16, looking at the components of the CHEP Americas overall margin improvement, the 1 percentage point increase in US margins translates to 0.8 points increase in the overall segment margin. This increase was driven by benefits associated with pricing, service centre automation and lumber initiatives over the past two years. And while moderating and transport inflation also contributed to the margin improvement during the year, that was pre-COVID-19, before we saw increases in transport costs.

The margin decline in Canada decreased overall segment margins by 0.5 points. This is despite strong sales growth, which included increased price realisation. Earnings, however, were impacted by additional costs associated with the stringer-to-block pallet transition, which was flagged to the market at the FY19 and first half 2020 results.

Latin America full-year margins were flat to prior year and despite additional costs in the fourth quarter following the outbreak of COVID-19. Margins increased significantly in the second half of the year, driven by benefits from asset management, commercial pricing initiatives and the phasing of higher costs in the prior year. It should be highlighted, however, that the Latin America business delivered double digit revenue and earnings growth while generating strong cash flow driven by asset efficiency, which also resulted in improved overall returns.

Finally, AASB 16 contributed 0.6 points increase to the overall segment margins. As we look forward, we expect CHEP Americas margins to increase in FY21, driven by the additional point of margin improvement in the US business.

Slide 17 provides an update on the US automation program. Despite delays due to COVID-19 and travel restrictions in the fourth quarter, the program remains on track to deliver on the objectives of improved efficiencies, increased capacity and strong returns on the investment. Since the start of the second half 2018 we have automated 28 sites, which are performing in line with expectations. We have identified a further 24 sites for automation in FY21, including nine site implementations which were delayed in the fourth quarter of FY20.

Turning to slide 18 and the strong increase in US pallets revenue in FY20, US pallets sales growth of 9% included price mix growth of 4%, which was driven by contractual price increases, in line with the higher cost to serve. The effective price, which includes surcharges, was 1 percentage point lower at 3%, due to lower contributions from lumber and transport surcharges, in line with the moderating rate of inflation during the year.

Like-for-like volume growth of 3% was above historic rates, due to a surge in demand from existing customers in the fourth quarter following the outbreak of COVID-19. Net new business growth of 2% included the rollover impact of a major contract win in FY19.

As we look to FY21 and notwithstanding uncertainties, we expect price growth to moderate as we complete the final stages of our three-year US repricing program, which commended in FY18. FY21 like-for-like growth is expected to return to more normal levels, assuming no further spikes in demand due to COVID-19 and subject to prevailing macroeconomic conditions and the at home versus on-premise consumption patterns. And we also expect ongoing net new business momentum in the range of 1% to 2%.

Turning to CHEP EMEA on slide 19, going into FY20 we highlighted to the market that the overall economic challenges and Brexit related uncertainty would impact outcomes in the region before COVID-19. Overall segment sales revenue increased 3%, driven by strong growth in the pallets business. Excluding the impact of AASB 16, underlying profit decreased 3%, largely due to the US$23 million decline in automotive and Kegstar earnings. With pallets business costs also impacted by additional inspection, handling and transport costs to manage the surge in pallet demand and service our customers while we minimised capital spend to support temporary spikes in demand.

IPEP expense increased due to higher pallet FIFO unit costs in the region, while higher depreciation expense reflected asset pool growth, which included the prior year investment in automotive to service the large contract. We also invested in additional resources in the region to support business growth in response to more challenging economic environment before COVID-19. Margins and returns in the region remain strong, despite declines in earnings of the automotive and Kegstar businesses.

Slide 20 looks at the components of CHEP EMEA growth in more detail and provides an overview of our expectations for FY21. FY20 sales revenue growth of 3% included a 2 percentage point contribution from price mix, largely driven by contractual indexation in the pallets business, in line with the inflationary cost environment in the region. Like-for-like volumes decreased 2%, driven by lower demand from existing customers in Kegstar and in the automotive businesses. In the pallets business, like-for-like volumes were flat to prior year, reflecting the challenging macroeconomic conditions flagged to the market going into FY20.

Net new business growth was, however, strong at 3% and reflected current and prior year pallet contract wins, primarily in Southern, Central and Eastern Europe. As we look forward to FY21, automotive revenues are expected to remain subdued and subject to production levels in the global automotive industry. Growth in Kegstar will depend on COVID-19 developments and their implications for on-premise consumption of beer. And in pallets we expect weak macroeconomic conditions in Europe and Brexit related uncertainty to impact volume demand and price realisation.

Turning now to CHEP Asia Pacific on slide 21. Revenue growth increased 1% as the strong growth in the Australian pallets business offset the rollover impact of a large Australian RPC contract loss in the prior year. Excluding the impact of AASB 16, the strong pallets sales contribution to profit, coupled with cost control and plant efficiencies in Australia, delivered underlying profit growth of 1% and margin expansion of 0.1 points. ROCI remains strong, with the 0.4 reduction partly due to investment in service centre upgrades.

Key considerations for FY21 include the onboarding of a new large Australian RPC contract, which is expected to drive higher revenues, start-up costs and capital expenditure in the year. Pallets revenue growth is expected to moderate, as the business cycles strong growth in FY20. We also expect ongoing investments in plant infrastructure and supply chain initiatives to support growth and deliver efficiencies.

Turning now to cash flow on slide 22, free cash flow generation increased significantly during the year. Free cash flow after ordinary dividends increased US$261.1 million. However, this includes US$114 million AASB 16 benefit to the reported cash flow. Excluding this AASB 16 benefit, free cash flow after ordinary dividends increased by US$147 million. This is despite the prior year comparative, including US$138 million of operating cash flow from the now divested IFCO business. The IFCO sales proceeds did, however, support lower funding cost during the year.

The strong year-on-year improvement in cash generation reflects higher earnings, lower capital expenditure, despite volume growth during the year, and improved working capital. Financing and tax payments also decreased during the year, lower net interest payments reflected the benefit of the IFCO sale proceeds and the decrease in cash tax reflected lower instalment tax payments. As you'll see on the slide, we delivered a strong free cash flow result after ordinary dividends. The US$183.2 million special dividend was funded by the IFCO sale proceeds received in FY19.

We have now fully funded CapEx and dividends for the third year in a row, as you can see on slide 23. This is excluding the impact of timing of core business investment outflows being funded by US$252 million of proceeds from the exit of underperforming assets in FY18. These proceeds of US$252 million are being progressively invested in high returning US automation and lumber projects. US$163 million has been reinvested to date across the FY18 to FY20 period.

To further understand our true normalised cash flow performance in the current and prior years, it's important to adjust for the impact of AASB 16, which is a reporting benefit and not a real cash flow increase. So going down the page and starting with AASB 16 in FY20 and nothing that the prior year cash flows were not restated for AASB 16, so the first adjustment required to normalise is to reverse out the FY20 reporting benefit of US$114.1 million of principle lease payments now treated as financing from FY20.

Secondly, we reversed out the FY18 HFG loan proceeds included in the free cash flow in FY18, which is part of the US$252 million proceeds ringfenced in FY18 to fund the higher returning investments in US supply chain initiatives. Then for each of FY18, FY19 and FY20 cash flow, we added back the spend on these projects, given that they are funded from proceeds from the repayment of the US$150 million HFG joint venture loan and US$102 million proceeds from the sale of the US recycle businesses in FY18.

Finally, in 2018 we highlighted a working capital timing benefit of US$30 million which was included in the FY18 cash flow and which reversed in FY19, hence it is adjusted out of FY18 and added back to FY19 to reflect the real underlying cash flow for both years. So on a normalised basis, free cash flow after ordinary dividends was positive in all three of the FY18, FY19 and FY20 years and was particularly strong in FY20.

Turning to slide 24, a key contributor to the cash flow is asset efficiency. We set ourselves an objective in the first half of 2018 to deliver a 2 point improvement in pooling CapEx to sales, with the lead time required to change commercial models and asset management across the Group. We have made significant progress with a 2.8 points decline in the FY20 Group pooling CapEx to sales ratio, driven by underlying changes in our processes, business models and commercial terms, as well as improvement in asset management and overall pallet cost.

Absolute pooling CapEx decreased US$82 million during the year, despite volume growth. This reflects asset efficiency improvements across the Group, including in the Latin American pallets business. It also reflects pallet cost benefits associated with US lumber efficiency investment and the cycling of US$48 million of FY19 CapEx to support Brexit related retailer stocking and automotive spend in Europe, neither of which repeat in FY20.

We have made a concerted effort to ensure we do not add unnecessary CapEx to support COVID-19 temporary spikes in demand and have instead focused on getting more efficiency from the existing pool of assets. This has added higher repair and transport costs across the major markets, as we ensured our customers were served without adding to the size of the pool.

In North America, FY19 CapEx to sales ratio, i.e. in the prior year, was abnormally high despite underlying improvements in pool efficiency. This was due to investments in the Canada stringer-to-block transition and also due to a large US contract win, which resulted in pallet purchases late in the year in quarter 4, which created a mismatch between CapEx and associated revenue.

The North America FY20 pooling CapEx to sales ratio declined 1.6 points, reflecting asset and lumber efficiencies. In Latin America, pooling CapEx to sales ratio declined 8 points and reflects the progressive improvement driven by Mexico asset efficiency and control program. In the EMEA region, pooling CapEx decreased 4.5 points, due both to the cycling of the FY19 Brexit CapEx and automotive CapEx and importantly, is as a result of the focus on asset efficiency in the pool during the year to support volatile demand. This has resulted in higher transport and pallet repatriation costs from the UK and higher repair costs to enable higher efficiency ratio of existing pallets to support demand.

Turning now to slide 25 and the balance sheet, we enter FY21 with a strong balance sheet and significant liquidity, with US$2.1 billion of cash, deposits and undrawn committed bank facilities. We have no major refinancing obligations over the next 12 months and on a proforma basis, following the completion of our share buyback program, our net debt to EBITDA ratio is under 1.7x, well within our revised financial policy of less than 2x, aligning with our objective of maintaining our BBB+, Baa1 ratings.

Turning to slide 26 and in conclusion, in conclusion our FY20 result reflects the defensive nature of our business, the progress we've made with operational initiatives across the Group and our focus on cash flow generation. We delivered sales revenue and underlying profit growth in line with our FY20 guidance, despite challenges associated with the outbreak of COVID-19. Cash flow generation improved significantly, reflecting disciplined capital allocation, asset efficiency improvements and improved cash collections.

We have a strong balance sheet and a strong liquidity position, which will continue to support future dividend payments and the continuation of our share buyback program. And finally, notwithstanding current uncertainties and challenges, we have provided guidance and we expect to deliver sales and earnings growth in FY21. We'll now hand back to the operator to open the call for Q&A. Thank you.

Operator: Thank you. At this time, if you wish to ask a question please press star-one on your telephone and wait for your name to be announced. If you wish to cancel your request please press star-two. If you are on a speakerphone please pick up the handset to ask your question. Your first question comes from Jakob Cakarnis with Citi. Please go ahead.

Jakob Cakarnis: (Citigroup, Analyst) Morning, guys, just wanted to unpack some of the components of the guidance that you've given today. You've indicated that there's probably a slowing revenue growth environment. Can you just highlight for us which market is the most concerning for you at the moment?

Then just secondly, in the operating costs in the guidance, can you just give us some indications around IPEP, for example and whether or not you expect those network inefficiencies to continue into FY21?

Graham Chipchase: Hi Jakob, I'll deal with the markets point and Nessa will talk about the IPEP. So I think when we're looking at the major markets around the world - and we've alluded a little bit to what we've seen in July, I think is a good indicator as well - the US is holding up quite well at the moment. But again, we made the comment in the July numbers about economic stimuli, you've got to be really, really careful looking at current trends, because there's a lot of stimuli in places like the US and European economies, which are all going to start coming off in October, November time. So yes, US is doing well at the moment, but we're quite careful on that one.

The one that I think is consistent with what we were saying pre-COVID is Europe, where we called out that we saw the economy slowing down in Europe and sure enough, as Nessa said in her section, the like-for-like volumes in Europe

across the whole of fiscal 2020 were flat. And that you can then imply that probably they're slightly below flat right now, because we are seeing a slowing down of the economy in addition to the volatility from the COVID-19 impact.

So those would be the two extremes, I guess. Australia is doing very well at the moment, but again, you know better than we do what's going on right now in Australia. So I think there's going to be a lot more volatility going forward in Australia. Then Lat Am, again I think that is the one which from a pandemic perspective has been hit harder than a lot of other markets. So of course, they went into that pandemic cycle later than places like Europe, so whilst we had an okay, in fact very good fiscal 2020, we are seeing much more subdued numbers coming out of Lat Am right now.

So if I had to rank them in order, I would say at the moment we're probably most comfortable with the US, but subject to the stimuli point and Australia, New Zealand and then you would start saying okay, Europe is flat and then some of the others are now looking a little bit more negative. That would be the sort of breakdown. Then Nessa, do you want to take on the IPEP point?

Nessa O'Sullivan: Yes, sure. So we'd expect IPEP this year to be broadly in line with what we saw in FY20, maybe a slight moderation down. We won't have the big jump up in the unit IPEP cost, which came as a result of us doing additional write-offs through Latin America. We're starting to see big improvements in that market in terms of loss rates, which takes some of the pressure off that. And also as we transition, some amounts in there as we transition in Canada from stringer-to-block, so we don't expect the same step-up. So if you're thinking forward, broadly flat to this year is probably how you should think about it, factoring in some volume growth.

You asked too about what we were seeing in costs and what the outlook for that is. The real challenge for us is that volatility totally changed the cost profiles for us in a number of areas. So just if I take the example of transport, for instance, in the US we've been enjoying a moderation in transport costs year-on-year. But as we went into spikes in demand and the transport capacity came under pressure and the spot rates tracked at a premium, we also had a dramatic change in our network. So normally our network flows and how we price where we have surplus pallets, the pricing mechanism will be different to where you have deficit pallets. And our network helps to move pallets round the total network to balance it.

So one of the issues for us is that as long as we see volatility and disruptions, we will incur increased costs to transport pallets and rebalance the pool. We don't want to get into a position where we put in a lot more CapEx just to service temporary spikes. So as a result of that, when you look at what the impact was - and we called out that Kegstar and automotive combined were about a US$23 million impact - and while we saw higher sales in pallets, we're sort of saying net-net in pallets the benefits that we got from increased sales were really broadly offset by spikes across the whole network and the increased costs that we saw.

Jakob Cakarnis: (Citigroup, Analyst) Thanks guys, one final one from me. In the corporate line there's an item shaping the future costs, which you've indicated at US$12 million in the period. Can you just give us an idea whether or not they're continuing into FY21 under the shaping the future and whether or not we should expect any margin benefits or any cost benefits to flow from this investment moving forward? Thanks.

Graham Chipchase: So the costs that were in the fiscal 2020 numbers were largely related to a new sales relationship management tool, which will give us a better view on the pipeline and managing contracts, et cetera, going through into future years. But it was more about making sure we upgraded an old tool. But going forward, the name is indicative of the shape of the costs and the benefits. Shaping our future is about digitising the Company, improving the customer experience, as well as doing all the things we have talked about around making processes more efficient and the Company more effective. So we would anticipate spending as much, if not slightly more, in fiscal 2021.

The reason we can't be definitive about the numbers is there are a lot of proofs of concept that we want to go through in fiscal 2021 and trials and, therefore, the estimate of what those investments will bring in the future we don't know yet, because we haven't done the trials. So yes, more cost in fiscal 2021, no margin improvement in fiscal 2021 from this

particular investment, but we would anticipate if the proofs of concept are successful then we'll be investing more in 2022 onwards, but we'd also be getting benefits in 2022 onwards. So that's the sort of shape of that program.

But stepping back a bit on margin improvement, one of the things that we have said - and I think the guidance and the outlook guidance implies it - is that at whatever point you want to draw the revenue increase, we are expecting some leverage to flow from that because of what we're doing around costs generally and also coming through that inflationary spike that we talked about in 2018 and 2019. So I think that's our view but clearly, it's really, really hard to be predicting what's going on in the next 12 months. I think the mere fact that we are giving guidance at all should give you some sort of comfort around the resilience of the business, and we have seen that over the last few months. It's a resilient business and we are able to generate more cash through this period, all the things we said we thought would happen. But actually giving really detailed predictions about margins and ULP, et cetera, is quite hard now at this point.

Jakob Cakarnis: (Citigroup, Analyst) (Company, Analyst) Thanks Graham, thanks Nessa.

Operator: Your next question comes from Matt Ryan with UBS Investment Bank. Please go ahead.

Matt Ryan: (UBS Investment Bank, Analyst) Thank you, hi Graham, hi Nessa. I just want to be clear on what you are trying to convey with your guidance and in particular trying to understand that scenario where you got to a flat revenue outcome, and maybe just to help us can you quantify what you mean by Automotive and Kegstar being lower in FY21 versus FY20? Then reading between the lines on what you've just said, are you assuming the greatest risk to get you to that flat outcome would be EMEA going negative and there's a pretty low likelihood that the Americas and Asia Pacific would be negative, is that how we are supposed to interpret what you are saying?

Graham Chipchase: So I think what I would say is I wouldn't interpret too much detail because that's exactly we have given quite large ranges and the flat implies that we will see an impact on consumption driven by both the consumer behaviour changing through COVID but also as you've just mentioned the fundamental underlying decline in GDP in a lot of our big markets, particularly the European ones. So I don't want to put your words into my mouth but, yes, I mean I think you are right. I mean based on what we are seeing right now the markets that look more likely to be problematic are going to be Europe because they're already at flat and so if things get worse then, yes, they will go negative.

But remember that's what happened in 2008, 2009, so we are still – we know based on what we are saying now that we think we are in a better shape than we perhaps were in 2008, 2009 at to how we can manage the costs and generate more cash. But it is just incredibly difficult to start making predictions about the full year now and that's why we've said look we are going to have to look at the trading after three months and do another big reforecast and then we will reflect more on the guidance we have given. The comments around Automotive, what we are saying is there was a significant impact in Q4 because basically all the Automotive OEMs stopped producing.

We've seen them come back up now but the level at which they've come back is nowhere near what they were at before and we expect that level of inactivity to continue for most of the year. So you will be getting activity but it will be lower in total than fiscal '20. It has to be because you had three quarters of normal activity and one quarter of zero activity. I think that's all we are trying to point out. Is there anything, Nessa, you want to add to that one?

Nessa O'Sullivan: No, I think that's a good summary.

Matt Ryan: (UBS Investment Bank, Analyst) That's great and maybe a question for Nessa. Slide 14 which is just a bridge of your Group profit. It's got a reasonably large other line of US$49 million which it looks like about three-quarters of that came in the second half and there's a lot of things which you have talked about driving that number. But just hoping on – if you could break down what the biggest things were and if those things have finished now or whether there's a continuation of those into next year.

Ness O'Sullivan: Okay, so how you should think about this is first of all we totally changed the business model in both our – in our Mexico business but also in Turkey, which was just a smaller part of the business. In both markets we have added additional overhead but as a result of that we are now realising higher pricing, getting higher profitability, and generating better cash flow from both of those businesses. But to do that we have added in extra resources. As we saw in EMEA as you saw that we got good new business growth despite the decline in the existing core business from like-for-likes.

We also have additional resources which is seeking to deliver growth, which is quite successfully developing in new areas, new lanes, et cetera, to deliver growth to the business. We have also put resources into investing in the digital programs for sales force tools and basically getting ourselves in a position where we are better managing efficiencies in the business and developing new concepts that will give us future efficiencies. So you shouldn't expect to see a big decline in the overhead costs, these are costs that are put into the business and supporting the business growth and the outcomes.

Matt Ryan: (UBS Investment Bank, Analyst) Thank you.

Operator: Your next question comes from Owen Birrell with Goldman Sachs. Please go ahead.

Owen Birrell: (Goldman Sachs, Analyst) Hi guys, just a couple of questions around firstly pricing. You mentioned that this year in particular in the US is your final year of your price reset program. Is it fair to say that you continue to push pricing going forward if your major competitors are pushing price as well, or are you actively going to make a decision to hold price beyond this FY21 year?

Graham Chipchase: So if you recall what we said when we started the pricing reset program in the US there's got to be three things that come together to give you that environment where it's – I'm not going to say easy because it's never easy, where it's more likely to be able to get price increases. So the first one is high inflation because clearly, we can then go to our customers with a reason for having to increase prices. The second one is tight capacity, and the third one is rational competitive behaviour. We are still seeing rational competitive behaviour which is good but of course inflation is coming off and as we are automating more of the plant our supply capacity balances is becoming less tight, as is the industry's as well.

So I think some of the factors are not helping and one of them is. But the other thing we also said is, and as you pointed out, because of the nature of the term of the contract it was going to take us three years just to get through all of the contract so we've still got a bit more to do. So we would expect to see perhaps a little bit more pricing but this will probably be the last year where that big surge will come through. Now if some of the other factors change, so if we have a big spike in inflation again and we find that the industry capacity is tight well of course we will.

We will see if we can get more pricing but I think we've got to sit back a little bit and reflect that the US business has done an absolutely spectacular job over the last couple of years, given the history of not getting any price increases at all. So I think to expect that to be a constant is unrealistic. If you back – remember the slide that Nessa has with the dots around the US, when you look at what was going to get the margin improvement in the early years it was around – a lot of it was to do with the pricing but as we do into fiscal '21, '22, it's all around the delivery from the automation program and the lumber programs. So again, that's where the benefit is going to come from going forward rather than yet more pricing.

Owen Birrell: (Goldman Sachs, Analyst) Can I just draw you on the inflation comments that you made there? Putting this volatile spike in transport costs what are your assumptions for transport costs inflation and labour costs inflation going forward over the next two to three years, given that we are likely to see unemployment in the US 0% to 10%. So I'm just wondering (1) if you get a sense of – have you reset that cost inflation expectations?

Nessa O'Sullivan: So we certainly have been flagging that we expected transport moderation which we saw pre-COVID so our expectations are for the shorter term than what we factored into the outlook is obviously a range, hence the range in the guidance. But for the shorter term we are expecting volatility to continue through this year so we are expecting that as we see some increased volumes as a result of the spikes that we will continue to see some increased costs. It's a capacity issue in the US. We are not seeing that inflation issue in Europe, it's quite interesting. There is a lot of conjecture that because of the stimulus that's happening in the US that a lot of the transport workers are lower paid workers that are not going back to the labour market, which means that there are capacity shortages in trucking.

So this is unique to the US and similarly it's happened in lumber, their production is way done but the demand is high. Housing is still going well in the US particularly in Texas. DIY has taken off but they don't have enough capacity to turn out higher levels of lumber. So I think we would expect to see more – to get a better view for this when we see stimulus packages come off because you would think if they're more challenging economically that you would expect to see some moderation in both transport and labour inflation but we are seeing the opposite at the moment. That's [unclear] a US comment, Europe is different. Europe is different to that. We are not seeing the same transport challenges.

Owen Birrell: (Goldman Sachs, Analyst) No, understood. Can I ask with the lumber comments that you made, we've seen the lumber prices spike in the recent months, has your lumber procurement your program helped to shield you from that lumber price or is it still coming through?

Ness O'Sullivan: So look you know over a long period of time if you imagine it doesn't matter what you've got in place any commodity you are impacted. But where we have a big benefit is we have invested in the efficiency of processing so it's not purely transactional. What we have done because we've jointly invested with saw mills is we have new technology in the saw mills which reduces wastage which therefore gives us a bit less exposure in terms of per pallet, the unit cost of a pallet, we will get a benefit because we will waste less lumber because of the investment that we have put into processing.

Obviously great for our sustainability credentials as well but, yes, we do get some benefits from that but we're not fully insulated. We do have a lumber surcharge in place, the same where we have inflation surcharges in place so as these costs get higher that we do have mechanisms to recover that.

Owen Birrell: (Goldman Sachs, Analyst) You called out the volatility causing that spike in transport costs and plant costs. If we find the market settles down and we don't get the volatility that you are expecting is it fair to say that some of that additional volatility led cost increase you exhibited on slide 14 effectively reverses?

Nessa O'Sullivan: Well, we would expect – yes, look we called out that as we got additional volumes through pallets basically the benefits was offset by higher cost. Part of that is a conscious decision where we didn't want to put more and more CapEx in just to service that. So if you like we are running higher repair costs and higher handling costs than you would have. If you go back to more normative flows in the network and you have less spikes then, yes, our costs will come down.

Owen Birrell: (Goldman Sachs, Analyst) That's great, I'll leave it their thanks.

Operator: Your next question comes from Anthony Longo with CLSA. Please go ahead.

Anthony Longo: (CLSA, Analyst) Hi Graham, hi Nessa. Just wanted to have a – just had a quick question on the cash flow. So it looks like your working capital was – you got a benefit this time around. Are you able to perhaps give a bit more colour as to what ultimately went through that cash flow and the working capital? I notice your receivables to sales looked like they've improved but I just want to get a sense of customer health and credit on that side of things.

Nessa O'Sullivan: Yes, so, Anthony, I'll take that question. So you will have noticed for the cash flow over the last two years that we had some benefits in working capital from – that have been more from the supplier side as we centralised

procurement, put in more control. This is actually more on the receivable side as you note and if you look at the ageing of our debt it has improved a lot. We have actually spent a lot of time over the last 12 to 18 months improving our processes, improving the data analytics that we do when – and dispute resolutions. So we are doing a lot more and more frequent tracking of where we see any abnormalities or any issues outside of terms that occur so that we now also have a new process that has the finance team working very, very closely with the sales team.

So it's a lot more about resolving root cause problems so where there are issues or disputes making sure that we are actually solving those so they don't reoccur. We have actually spent a lot of time building new reports, using data analytics across the business, and on a weekly basis the CFOs are discussing where we are with cash collections. So I would say we have sort of upped our game further. We started from suppliers, focused on the assets which is also delivering but we did have a big push this year.

So in terms of as you look at what you might look at year-on-year will we get all of that working capital benefit, will you get another year of that – no? But would we expect to retain what we've got, yes, and maybe there's a little bit more to go? But essentially, we have made a lot of changes in processes to enable us to get into this healthier position, which the timing of COVID-19 has actually made that even more valuable to us than just pure cash flow. It obviously helps reduce risk in our business too.

Anthony Longo: (CLSA, Analyst) That's great thanks. I'll leave it there for now thank you .

Operator: Your next question comes from Cameron McDonald with E&P. Please go ahead.

Big , Analyst) Hi, good evening. Can I just ask about where you are at with the Costco plastic pallet trials?

Graham Chipchase: Sure, so the trials continue. They've been delayed a little bit in terms of both Costco and the supplies into Costco, our customers, because of COVID-19. As you can imagine the focus was all about – was on keeping the supply chains open and getting products on the shelves in the supermarkets. So the trial has been delayed a while but we are – they're starting to commence them again with the same objectives we've always had which is we still want to test out the pricing levels. Because clearly a premium to wood has to be charged to offset or to recover the higher per unit cost of a plastic pallet versus a wooden one. But also understanding that it's not what some people think, which is you know because it costs a lot more the premium has to be a lot more, because there are other benefits of using the plastic pallets and the associated infrastructure which Costco are putting into their stores and distribution centres around tracking and tracing.

So if we can get the loss rates down and the damage rates down the premium doesn't have to be a one-for-one relation with the cost differential to work. But the fundamental unproven piece right now is what is the price premium that the market will stand. As we've been, I think, very consistent in saying, if the financials don't work for us we won't do this. But at the moment so far the trials are ongoing and there's not much more I can to say to it other than the operational aspects of the pallet we've got in place are as good as we've hoped for, so it's now all about the commercial piece.

Cameron McDonald: (E&P, Analyst) Have you decided on a solution from the pallet perspective? I think last time you were still talking about a hybrid type pallet, have you moved away from that towards a more holistic plastic solution?

Graham Chipchase: So at the moment we are looking at all plastic because that's what Costco are prepared to support. The hybrid pallet we still think might have some application in other markets and other instances but again we are now going back and saying, okay, we have got to focus on plastic. Really it's about over time can you engineer a lighter plastic pallet than is current in the market and that's going to take – that's not going to be a short term fix, that's a longer term project. So, no, we are focusing on all plastic one at the moment.

Cameron McDonald: (E&P, Analyst) Great and Nessa, a question for you just on the Americas and the US margin slide or the Americas margin slide on slide 16. So now that we are transitioned from stringer-to-block in Canada should that

now be a rebased margin so that that margin might have a drag or could potentially improve in 2021? Then Latin America was flat this year, what's the outlook for Latin America? Then I think you did say that the margin outlook for the Americas in total will effectively be the benefit coming through from the US which should be that sort of 80 basis points, is that the way to think about it?

Nessa O'Sullivan: So a couple of comments. So in terms of Canada, yes, we have had a rebase to a lower margin which has been that that region had been on exceptionally high absolute margins and returns and as you know the block has a higher damage rate. If we were looking at it and you know we are not going to forecasting by each subset section here, I wouldn't expect the Canada margins to get any worse. We might expect to see a bit of improvement but that remains to be seen what transpires during the year.

As we think about Latin America, I think the key focus for us is how we evaluate Latin America should be about cash generation and growth. Are we getting growth and good cash generation? Because normally growth is very capital intensive so that will tell you that we have actually a high returning business in place. So we have gone from being a cash user to two years ago to being a big cash generator. The challenge for us with predicting Latin America - so we are on a great path with cash gen but we don't know what's going to happen with COVID this year in particular. We know it's impacted now and we've seen issue volumes declining but we are seeing still good revenue realisation. So that market is a real uncertainty for us to be able to give a better view but we are very positive with the progress we've made.

Cameron McDonald: (E&P, Analyst) Right, thank you.

Operator: Your next question comes from Anthony Moulder with Jefferies. Please go ahead.

Anthony Moulder: (Jefferies, Analyst) [Hello] Can I start with the leverage in the pallets business I mean obviously you've given details around the earnings impact through Automotive and Kegstar, but can you talk to how you saw the leverage through the pallets busines particularly the fourth quarter of 2020 please?

Nessa O'Sullivan: Well, I think, Anthony, as I talked about, we had spikes in demand that gave us extra earnings but basically the benefits of that were offset by extra costs across the entire network. So volatility has a disproportionate effect and it's across the entire network. So while you get some additional volume the additional costs are spread across the network. So you should think broadly net net we had higher revenues but they were offset by higher network costs when you think about pallets.

Anthony Moulder: (Jefferies, Analyst) Right so [unclear] I guess the volatility and some of the cost base won't continue so is that the hope for fiscal '22 you return to some level of operating leverage to the pallets business?

Nessa O'Sullivan: Actually if we get to 2022, we would, yes, hopefully be beyond all this volatility. I think we are all waiting to see what happens, maybe it will start changing as we get into the second half, maybe even second quarter. It's really hard to tell but right now we are still seeing through July and into August we are still seeing volatility from week to week.

Anthony Moulder: (Jefferies, Analyst) The US inventory like they're a lot lower but at the same time we've seen a big increase in e-commerce, are you seeing any impact on your business from some of those changes and whether or not they're structural or will continue through this pandemic? Just interested as to how that's playing out through your business.

Graham Chipchase: Yes, so I think we have seen the trends I think everybody has been seeing which is less people going out to eat in restaurants and bars and therefore they're doing more at home consumption, and as a result also less people going to buy the ingredients for those meals in supermarkets and more online. I think, yes, we've seen that in a lot of places. But if you recall, back before all this happened, we also talked about online retail and the impact on

the business and fundamentally it doesn't make a huge difference to our flows. Because an online retailer's fulfilment centre is no different – it may be a little bit more automated but no different to a lot of the retailers' distribution centres. In that the product is coming in on our pallets to Amazon's fulfilment centres the same way as it comes into a bricks and mortar retailer's distribution centre.

It then gets taken off the pallets and taken on other platforms to stores as far as retailers are concerned or to consumer's homes as far as Amazon is concerned and other online retailers. We don't play in that space going down to the very last mile and therefore it doesn't really impact as much if the difference is going more towards online versus bricks and mortar. Now if that – I am sure that if that trend extrapolates a lot over the next few years and no one knows whether it will or it won't then we will have to rethink about our model because clearly you are putting more and more business into fewer and fewer channels, and there will be more and more pressure on us I suspect on cost.

But then again if we've got less complexity in our business model we should be able to lay off costs more so I don't see it as a threat, it's more just something we have to keep an eye on and potentially an opportunity. But at the moment we are a bit ambivalent about whether it's online or bricks and mortar.

Anthony Moulder: (Jefferies, Analyst) I appreciate that but I guess it's less pallets are going down to store level or less re-use but I think potentially the cycle time is lower which means that you would need less pallets to service the same number of issues in key markets wouldn't you?

Graham Chipchase: Yes, I mean as I think we said before Amazon is a great customer for us because we get our pallets back quickly. So in that very high level analysis, yes, I think we would agree with you.

Anthony Moulder: (Jefferies, Analyst) But I wondered as to whether or not that was also a function or a factor in the lower replacement CapEx through second half 2020, clearly not.

Graham Chipchase: Not really, no, it's been more about us looking at the fundamental processes and applying much more discipline and best practices, it's not really a factor of online versus bricks and mortar.

Anthony Moulder: (Jefferies, Analyst) A question on Brexit. It looks like the transition goes through to the end of the year. There's some talk of heat treating pallets between the Continent and the UK. Where are you as far as leading the heat treat pallets and any discussions with customers as to how easily they will absorb that cost?

Graham Chipchase: Yes, so I mean again the debate around heat treatment has been going on for a long time now. So as a result we took the decision to invest in units within our big service centres in the UK that could do the heat treating, recognising that it's not a huge capital cost and that there would be an opportunity I suspect to get a premium for pallets that are heat treated. Now we did a little bit of that about nine months ago and got a bit of a premium but in terms of wide scale every pallet must now be heat treated we're not there yet because as you say there's still a bit of opportunity for negotiating and getting – trying to get the UK Government to negotiate that the pallets don't need to be heat treated.

But to be honest it is not top of their agenda and things they need to negotiate with the EU so our working assumption is we need to be ready to heat treat ourselves and then we'll have to take the commercial decision. But when I say the CapEx involved it's probably US$10 million at most. The actual cost and through depreciation is not that big for us so I don't think it's a big issue. The bigger issue around Brexit is as ever is going to be what's going to happen if there is no deal and again, we've had plenty of practice at this now because there have been several false deadlines. So the business is well used to coping with having to see stockpiling from our customers. It might mean a bit of CapEx in the short term but then we would expect that to unwind past the deadline.

The bigger issue is going to be is there going to be a real problem at the ports in terms of bottlenecks, and again we are talking to our customers regularly about their plans because we have to effectively try and support the customers we've

got. But at the moment, yes, we have had plenty of dry runs on this and we don't see it as a big issue but something we just have to keep eyes – keep alert to.

Anthony Moulder: (Jefferies, Analyst) Thank you.

Operator: Your next question comes from Scott Ryall with Rimor Equity Research. Please go ahead.

Scott Ryall: (Rimor Equity Research, Analyst) Hi, thank you very much. I was wondering – it's just a follow up question on the EMEA margins please. Am I right, in the second half it looks to me like underlying profit was for the pallets only once I've stripped out the impact that you've called out for the Automotive business and the Kegstar business, that the margin – or underlying profit sorry was maybe flat, maybe slightly down, maybe slightly up on a constant currency basis just depending on the currency mix? Does that sound about right?

Just to Anthony's question just now. I'm just interested in your commentary on the second half pick up in costs as a result because clearly, it's lower than your 5% constant currency revenue growth. So I'm just wondering if you could comment a little bit about the lack of operational leverage during that time and a bit more detail focused on EMEA please.

Nessa O'Sullivan: So hi Scott. Look to your first question, yes, your summation is right about the pallets business adjusting for that [being] directionally flattish for the second half. When you're talking lack of leverage that's why I was saying across the businesses which is the same. So in Europe we've had a lot of pallet repatriations from the UK, additional repairs as we really focus saying, look we think this is going to be economic – the markets are going to be economically challenged, we don't have loads of excess pallets. So we have actually – you can see repair costs have gone up and also so have handling costs up and that was – so it's the same in the US but in response to volatility if we had responded to our normal algorithms we would have added in a lot more pallets to both sets of businesses. So until we get through this to a more normative state it's going to be challenging for us to work out the costs.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, so that leads on nicely to also…

Nessa O'Sullivan: Sorry Scott, before you finish that and that's where you know particularly in that region we had very high cash generation. So EMEA was a high cash generator for us.

Scott Ryall: (Rimor Equity Research, Analyst) Yes, so that does lead on perfectly to my next question which is on your slide 24 and asset efficiencies. Can I just get an update in terms of your thinking as to how low – across the Group how low you can get CapEx to fail? I guess I maybe more traditionally look at CapEx to depreciation. In that second half of the year you've got – and this is just going off your accruals data in your main release. CapEx to depreciation was about one for one in EMEA and ASIA-PAC for the first time that I can remember. I'd have to go back to my numbers to check but America has stayed higher, half of which I make due to the automation program and you've obviously still got some slightly higher spend in Americas. But can you – can CapEx under your overriding, manual overriding of your algorithms, can you keep CapEx to the level of depreciation? Do you envisage that in a new capital efficient Brambles?

Nessa O'Sullivan: I think you need to look at DIN in total as sort of our replacement model. So we have to - every year there's a number of pallets that get scrapped which is usually around 3% or so of the pool. There are uncompensated losses about 8% but that's been coming down, and then you have compensated losses of about 3%. So as we think about it and why we don't group all of the CapEx together but we manage it in a disciplined way is that from year to year depending on what you invest in in the non-pooling CapEx there are usually specific initiatives that you can point to which will have their own return case. Where we have focused in to get the cash out of the efficiency has been looking at pooling CapEx to sale and you can see that if you even look on that chart of North America, FY19 was actually tracking better than we ended up because we got a new customer in the very last quarter which meant we had to buy a load of pallets that we'd rather not have bought then but we had to buy them because we had a new customer coming on, and other losses hadn't yet rolled off. So you will have some timing benefits.

But we are seeing that underlying trend as you can see across your major markets coming down as we are dealing with how do we better utilise our pool? Latin America obviously that specific asset program that we've had to really focus on, how do we make this a cash generative business which we are in a good space? If you're thinking therefore about where do you go to on a run rate? For us staying in business is about 14% odd that you put in in terms of replacement and then you usually need just over a point for each part of growth. So we think an efficient level is around this 17.5 point. We are looking to use digital and technology to see what other game changers could we put to change some of those truisms and I think we have successfully taken now out a couple of points by actually going through and being really focused on the allocations within the pool spend. If you look at the non-pool spend you can – sorry.

Scott Ryall: (Rimor Equity Research, Analyst) No, I guess I was going to say that I was looking at depreciations including the IPEP so that was one of the things that you've done in terms of your disclosures this time around that helped benchmark that. But I take your point on the 14% but what's the additional 1% that you talked about for each growth area, is that in each region?

[Over speaking]

Nessa O'Sullivan: I'm giving you a helicopter view just to help you. This is not an exact science. This is a roughly [inaudible] if you're going to then get a point of volume growth you will need maybe 1 point, 2 points odd of CapEx add in terms of pooling CapEx to sales. But I'm saying how you look at the capital investment in the pool pallet business we've got to an efficiency level down as you can see. We've come down now x number of points, we've come down to 2.8 points in FY20 to sort of – 2 points over the last three years. We are now seeing we need technology and other enablers to help us to be able to change some of those dynamics. So I think we feel comfortable where we are right now without a game changer in the technology it's sort of around that 17.5% would be the right pooling CapEx to sales. The other spend is dependent on what projects you've got.

For instance, we generally run that at 1% to 2% of sales. For instance we are finishing off or doing more of the automation in the US which is delivering. Those projects are giving us 20% returns on those investments. We are going to do a number of proof-to-concepts over the next 12 months with a view to bringing the next iteration of efficiency. For us we are looking for higher returns for that investment and obviously once we get through proof of the concept, they are things we'd talk to the market about. But we are looking for good – we kick our cash, we have a very strong balance sheet, we can find good ways to invest shareholders' money, we'll look to do that. But you know currently we have a very good model now of self-funding both CapEx and dividends.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, great, very clear, that's all I had thank you.

Operator: Your next question comes from Paul Butler with Credit Suisse. Please go ahead.

Paul Butler: (Credit Suisse, Analyst) Hi. Most of my questions have been asked and answered but can I just ask given that you are expecting the volatility to continue for at least some time yet, are there things that you can do to get better at managing that volatility that you are seeing or is it a case that you've got to wait until contracts expire and then price them appropriate for the type of volatility that there's been?

Graham Chipchase: I mean I think there are a few things we can do. So in the US, for example, one of the things that causes the costs to be – a significant problem with the volatility is the lack of capacity. So as we go through the US automation program one of the reasons for doing it is that you have that bit of spare capacity you can make sure your pallets are in the right place at the right time in advance. But I think some of the longer-term projects are can we use data analytics and machine learning to make better predictions about where the surpluses are going to take place and react faster? So that's a project we are looking at so it's obviously a longer-term project. I think just having an even greater focus on cost control it will help us mitigate the impacts of the spike but it's not a structural solution, that's just us being – managing on a short term basis what needs to be managed.

But I think it's been a perennial problem with the business model which is it doesn't function as effectively when you've got spikes in demand. I think one of the things we've got to try and do is find a way to manage that better because undoubtedly volatility will probably be with us in some form or other for quite a long time. I think the other comment to make though is one of the things that has always been I think a challenge with the business model is trying to get higher ULP and higher cash generation at the same time is quite difficult. You heard Nessa say that one of the things that we've done and has helped with how we've managed the volatility and to make sure our customers are satisfied is we've actually managed to keep a good check on CapEx.

But it's popped up again in terms of having to do more repairs and where it is for P&L. So getting those – and you've got to try and find the optimal point between both those things to solve for the right – and also the customer need to get the best solution. It think we are just continually (a) looking at the short term fixes around what I've talked about but also now we have to start looking at more technology and data and how we can be better predictively managing the business.

Nessa O'Sullivan: Yes, and I think another point that I'd just add there too is that as we went through all these spikes in demand we know that all our competitors were not able to service their customers in the same way that we did. Because we are - when this happens, which is one of the things where we create competitive advantage, we will invest and we do have an extensive network and footprint that allows us to react to be able to service customers. So there is a capability, there is a piece that gives us a competitive advantage through this which doesn't come through in the numbers but is something that I think should be called out.

Paul Butler: (Credit Suisse, Analyst) Are there any particular markets where you've outperformed the competitors on service?

Graham Chipchase: I would think definitely Europe and almost certainly the US were the two I would definitely say.

Nessa O'Sullivan: Yes.

Paul Butler: (Credit Suisse, Analyst) Just one more if I may. You've called out higher repair costs because of the volatility. I mean I understand the higher transport costs but if you just explain why the higher repair costs, is it because you're seeing higher damage or is it just more handling?

Nessa O'Sullivan: So normally when we see increases in volumes, we'd be adding more pallets into the mix as well as you get growth. We've said, no, we are not going to add in extra pallets just to service a peak in demand, we are going to get the balance right economically, which has meant that we've had to change our approach. So hence you repair more pallets plus given volatility we have through our plants in a very short period of time done a lot more repairs. So when it's spread over a longer time it's a much lower cost. We have ended the year with higher levels of repaired pallets in our plants as well because we are expecting volatility to continue. So it's a function of doing a lot of repairs all at the same time and the normal increase is not including new pallets so you're actually proportionately repairing more pallets.

Paul Butler: (Credit Suisse, Analyst) Thank you very much.

Operator: Your next question comes from [Harsen Venn] with Robeco. Please go ahead.

Harsen Venn: (Robeco, Analyst) Hi, can you hear me, good afternoon? A couple of questions from me. Maybe I'll start off with that volatility topic that we are on. You expect volatility to remain for the rest of – or for this fiscal year but what's the magnitude of the volatility let's say in July versus say in March? I would suspect that March would be a peak and people are used to living in the environment we are in the volatility should die off.

Nessa O'Sullivan: No, let me explain what we are seeing. So, no, it hasn't worked like that. When lockdowns happened initially, we saw peaks through March and April as people stockpiled and there was the initial view. As we've seen various levels of lockdown and easing and then reinforcing, we've seen a lot of volatility. I mean you've seen [on premise 92:30] it's supposedly opening in the UK, then some slow down, then some rules changing to do with that. So we have seen – we are seeing still month to month categories go from being double digit negative to being double digit positive. So that's what we are currently dealing with. So the normal flows we would have in our network just aren't occurring, and it's not just they've now settled down and we can predict where we are going to be so we can make economic decisions, or we could take out more of the fixed costs cost base.

We are still getting significant volatility and a real asset for us relative to other is that we have a big network and therefore that we can manage volatility better than others but it comes at a cost. Because ideally when you have flatter demand in terms of your labour costs, running your plants, how you run your transport, all those things you can run to a lower cost. In terms of what we expect, we are currently still seeing volatility so for us as we looked at the range where we would expect things to get progressively better before we got into FY22 we just don't know yet and that's why we are continuing to monitor it. I don't know if you want to add anything.

Graham Chipchase: No, that's okay.

Harsen Venn: (Robeco, Analyst) Well thanks for that it's clear. The second question I have is about your wording around the share buy-back program in your presentation. It says share buy-back program could continue subject to ongoing assessment. This word subject in there is a bit puzzling to me, does that also mean that it's a possibility that the buy-back is no longer a guarantee?

Nessa O'Sullivan: There's never a guarantee about a dividend or a buy-back but we have a very strong balance sheet that supports dividends and buy-backs. So it's the usual language you would expect given that it goes to the Board every six months for approval but we are in a good place with the dividend declared and we are back on the buy-back. So that's all that language is doing.

Harsen Venn: (Robeco, Analyst) Thank you.

Operator: If you wish to ask a question please press star one on your telephone and wait for your name to be announced. Your next question is a follow up from Jakob Cakarnis from Citi, please go ahead.

Jakob Cakarnis: (Citi, Analyst) Hi guys, just one follow up quickly. Graham, just the outside case in the guidance that you have provided to the market, is there anything in that for a vaccine globally at all? I note that you are in a pretty interesting position with your involvement with AstraZeneca, I just wondered to get a sense if that upside case does assume a vaccine at all?

Graham Chipchase: No, we will stick to being a logistics company rather then a pharmaceutical company and taking bets on vaccines. But I mean I think clearly one of the things that will help economies stabilise and go back to more normal levels is if there is less fear around catching COVID-19 and a successful vaccine would probably help that. But we've made no assumptions, we've just said here's the range, if things return quicker than expected we are at the upper end, if they don't we're at the lower end and I think that's all we are trying to signal there.

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

Operator: There are no further questions at this time. I will now hand back for closing remarks.

Graham Chipchase: I just want to say thanks very much, everybody, for the questions. I think we are very proud of what our employees and the Company have done during this pandemic in terms of how we have reacted and been able to support our customers. But clearly, it's still very uncertain times so we will absolutely come back to you after the first

quarter and talk about the guidance a bit more once we've seen a bit more trading. But thanks very much for your questions and hopefully before not too long we'll be able to do this in person rather than from the other side of the world. Many thanks.

Nessa O'Sullivan: Thanks, bye.

Operator: That concludes our conference for today, thank you for participating, you may now disconnect.

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