Event Transcript

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Start of Transcript

Operator: Thank you for standing by, and welcome to the Brambles Limited 2021 Full-Year Results Briefing 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 one on your telephone keypad. I would now like to hand the conference over to Mr Graham Chipchase, CEO. Please, go ahead.

Graham Chipchase: Hello, everyone. Thanks for joining us today for our 2021 full year results announcement. I'd like to apologise in advance for my croaky voice. I suspect it was from yelling at the TV during the England cricket team's very poor performance against India yesterday.

Before I begin with the key financial messages, I'd like to acknowledge our people, whose efforts have been outstanding given the unprecedented challenges our business, and indeed the world, have faced over the last two years. I'm really proud of their achievements.

Now, turning to the key highlights from our fiscal 2021 results. We delivered strong sales revenue growth of 7% at constant currency, in-line with our objective for mid-single digit growth. This performance reflected price realisation and volume growth in the global pallet business and a recovery in our automotive container business.

Our underlying profit was up 8% at constant currency as contributions from pricing, surcharge income, asset compensations, and supply chain efficiencies offset cost cost-to-serve increases and investment in future growth initiatives. This performance was ahead of the guidance we provided at our third quarter trading update and delivers on our commitment to achieve operating leverage in fiscal 2021.

At our investor day in 2018 and in subsequent reporting periods, we have outlined a number of initiatives to increase 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.

This improvement follows on from the 1% margin improvement achieved in fiscal 2020. During the year, we have recorded another significant improvement in cashflow, driven by increased earnings, effective working capital management, and higher compensations, partly off-set by higher capital expenditure.

While this improvement benefited from the delay of pallet purchases due to lumber availability and the timing of tax payments, the net positive result was still a very strong outcome in a challenging operating environment characterised by volatile demand patterns and rampant lumber inflation, both of which I will talk more to in the next slide.

Return on capital invested was 17.8%, up 1.1 percentage points and remains very strong. Importantly, in fiscal 2021, we really forced our sustainability leadership by achieving carbon neutral status across our own operations whilst also launching our ambitious 2025 sustainability targets.

I'd like now to take a moment to address the impact that COVID-19 and inflationary pressures had on our operating environment during the period on page – on slide 4. As you'll be aware, COVID-19, and to a lesser extent Brexit, continues to create volatility and uncertainty across global supply chains.

In particular, in fiscal 2021, our business was impacted by volatile and unpredictable demand patterns as manufacturers and retailers responded to elevated levels of at-home consumption and COVID-19-related disruptions by moving from a-just-in-time approach to inventory management to a just-in-case approach, significantly increasing overall inventory levels in order to provide greater contingency against unforeseen circumstances and disruptions.

Lumber supply constraints during the period produced a shortage in pallets across the globe and impacted all pallet industry players, leading to longer cycle times, effecting service levels, and causing further disruptions to supply chains. In the period, we also saw historic levels of lumber inflation due to both global supply issues, mostly COVID-19 related, and demand challenges due to robust housing construction markets, particularly in the US.

Lumber inflation also impacted our capital expenditure through higher new pallet prices and increased asset losses, and to a lesser extent, operating expenditure for increased pallet repair costs. Finally, higher transport costs reflecting freight cost inflation and increased transport miles due to additional pallet collections and relocations in response to changes in customer demand patterns and pallet availability constraints across the network.

Now, turning to our dividends and capital management program. In line with our dividend payouts ratio policy, we have declared a final dividend of US$0.105, which will be converted and paid as AU$0.1424 cents. This brings the total ordinary dividends declared for fiscal 2021 to US$0.205 cents. This represents a payout ratio of 54%. This ratio is broadly in line and within our targeted payout range of 45% to 60%.

In June 2019, we commenced our AU$2.4 billion on-market share buyback related to the sale of IFCO. To date, we have repurchased 158 million shares at a cost of AU$1.8 billion, representing 74% of the share buyback program. When combined with the AU$453.8 million returned to shareholders as a capital return and special dividend in 2019, AU$2.2 billion have been returned to shareholders, representing 78% of the AU$2.8 billion IFCO sale related capital management program.

Turning to our sustainability and ESG credentials on slide 6. As a Group, we remain committed to our sustainability leadership position. Our vision is to contribute to a more sustainable future by pioneering regenerative supply chains. This vision forms the basis of our 2025 sustainability targets which we launched in September 2020.

The full list of our 2025 sustainability targets is available on our website and outlined in our 2021 annual report. In the first year of our five-year program, we have made significant progress towards meeting our targets. From an environmental perspective, as I mentioned earlier, in June 2021, we achieved carbon neutral status in all of our own operations.

Additionally, in our efforts to achieve our 2025 target of planting two trees for every one we use, we have initiated multiple afforestation projects across the globe. From a social perspective, we are proud to say that 32% of our management roles are held by women, with this number increasing over the year in line with our objective to have at least 40% of management roles held by women by 2025.

Furthermore, our platforms and logistical support contributed to the delivery of donated foods to over 15 million people around the world. From a governance perspective, we released our modern slavery statement in March and continue to be recognised for the clarity and the effectiveness of our ESG reporting. Finally, as you can see in the blue section on this slide, we continue to be recognised as a global leader in sustainability by multiple global organisations.

Now, turning to slide 7. Over the past couple of years as part of the Shaping Our Future program, dedicated teams from within our business have developed a range of initiatives and identified new opportunities to drive transformation and to deliver a step-change in our financial outcomes.

In financial 2022, we will be recognising increased investments in these opportunities to strengthen our competitive advantage while maintaining our global leadership position in sustainability. These opportunities focus on increasing the efficiency and resilience of our operations by improving asset and network productivity; developing industry leading standards for customer experience, service quality, and innovation; deploying digital technology and data analytics capabilities to unlock significant value across the organisation and aligning our organisation technology and processes to be simpler, more efficient, and effective.

These investments are expected to deliver a significant and sustainable uplift in shareholder value by supporting revenue growth with a consistent delivery of operating leverage and free cashflow generation from fiscal 2023 onwards. To ensure appropriate context and full transparency, the details of our Shaping Our Future transformation program, which is still being finalised, will be addressed as a whole at our upcoming investor day next month.

Also, to be addressed at our investor day will be detailed guidance for fiscal 2022, including transformation program costs and updates from our regional business. Finally, there will also be a progress report on our plastic pallet trials, including the strict financial criteria to be used to ensure that the project, if it proceeds, delivers shareholder value.

I hope you will be as excited by this opportunity to really transform our business as we are. With that, I'll hand over to Nessa.

Nessa O'Sullivan: Great. Thank you very much, Graham. Good morning or good evening everybody, depending on where you're dialling in from. Turn to slide 9 and an overview of the FY21 results. Constant currency sales revenue increased 7%, and that was driven by both pricing actions to recover higher cost-to-serve and higher volumes in the pallets and automotive business.

Underlying profit increased by 8% in constant currency and reflected 1 point of profit leverage as pricing, surcharges, and compensation income, as well as supply chain efficiencies from capital investments and procurement initiatives offset inflation pressures, higher operating costs overall, and increased [asset loss] charges in the US.

Profit after tax increased 5% with the tax expense increasing 15% as it included a US$22.7 million significant item expense associated with the revaluation of the [deferred] tax balance in response to announced increases in the UK corporate tax rate from 19% to 25%, taking effect in April 2023.

Finance costs increased in line with the progressive [funding] of the share buyback program but partly offset by the very strong free cashflow generation in the year and lower year on year [borrowing] rates. Underlying EPS of US$0.378 cents increased 15%, which included 5 percentage points benefit from the share buyback program.

Turning to slide 10 and Group sales revenue. All segments delivered revenue growth in the year, contributing to the 7% sales growth. Pricing contributed 4 points to this growth, reflecting the recovery of inflationary cost pressures and the higher cost to serve to contractual price increases in all regions, as well as indexation in Europe.

Like for like volume growth accounted for 2% of the Group revenue growth, which reflected increased pallet demand from existing customers to support elevated levels of at-home consumption and a return to volume growth in the automotive business, which had been severely impacted by COVID in the fourth quarter of the prior year.

New contract wins also contributed 1 point to Group growth. That was largely driven by the conversion of new customers to pallet pooling in central and eastern Europe, as well as the benefit from a large RPC contract won in the prior year.

Turning to slide 11. Before we get into the Group profit performance, I'll provide some context on the lumber market dynamics as well as some commentary on the impacts of lumber inflation and pallet shortages on our business during FY21.

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The impact of global lumber inflation was particularly evident in the second half of the year with the increased cost of lumber impacting both the capital investment cost of pallets and to a lesser extent the cost of repairs in plant costs. The increase in costs were driven by both supply and demand factors, and they're outlined on the left-hand side of the slide. Higher inflation costs were most [marked] in the US with the housing and DIY sectors driving higher demand, and sawmill capacity constraints due to COVID-19 closures and labour availability driving supply constraints.

Globally, demand for lumber increased as economies reopened post-pandemic closures with supply further impacted by transport and shipping container shortages. This supply and demand imbalance resulted in lumber scarcity and record levels of lumber inflation in the US market, and supply challenges globally, which have flow-on implications for pricing and supply in other regions.

As you can see from the middle part of the chart, US lumber prices rose sharply in the year, reaching peak levels in May before some moderation in June. We continue to see European prices increasing in line with ongoing availability constraints.

The impact on our business of lumber inflation was primarily weighted to capital expenditure, with 80% of the cost of a pallet driven by lumber costs. Lumber inflation accounted for approximately US$150 million of the increase in capital expenditure in the year.

In addition, lumber scarcity meant we also delayed US$180 million of new pallet purchases into FY22. From an OpEx perspective, we saw higher costs of repair lumber, which accounts for 20% of Group plant costs. Pallet availability constraints also drove further costs into our P&L with additional repair and relocation costs to service demand from the existing pallet pool.

In terms of costs recovering mechanisms, over the last three years, we have implemented lumber surcharges into over 80% of the US contracts. The US surcharge, which is linked to market indices, contributed US$60 million to Group income in the year, partly offsetting the CapEx inflation [included in] fixed assets and lumber inflation for repair lumber in the operating costs included in plant costs in the P&L.

In Europe, contractual indexation does include a component for lumber, however, contributions from indexation in FY21 were minimal with inflation ramping up in the region in the second half of the year, and annual indexation reset not occurring until 1 July for the majority of our customers. In addition to these pricing mechanisms, efficiencies from investments and service centre automation, lumber procurement, and pallet durability initiatives also helped offset P&L plant costs in the year.

Moving to the Group profit performance on slide 12. Collectively, the combined contribution of US$295 million from sales revenue growth and the lumber surcharge contribution offset both operation cost increases and increased P&L investment to support Shaping Our Future initiatives.

Plant costs net of supply chain efficiencies increased US$74 million in the year, driven by the higher cost of repair lumber in line with inflation, and additional repair and handling costs to service demand in the context of pallet availability constraints and changes in network flows.

Cost increases were partly offset by efficiencies from lower damage rates in key markets and benefits from supply chain procurement and automation programs, largely in the US. Net transport costs increased $56 million net of efficiencies and the north American fuel and transport surcharges. With driver shortages and truck availability challenges in all markets driving higher costs.

In addition, we incurred additional transport miles across our operations as we collected and relocated existing pallets to support customer demand to rebalance the pool in response to changes in network flows. IPEP increased US$39 million in the year, reflecting higher asset charges in the US, split between lower pallet recovery rates and higher FIFO unit costs.

Pallet recoveries and increased losses in the US were impacted by a range of factors which we will cover later in the presentation. Outside of the US and across the rest of the Group, lower asset losses and improved pallet pool efficiencies fully offset increased FIFO pallet costs.

Shaping Our Future costs which includes investment in BXB Digital increased by US$25 million. Other costs increased US$19 million, reflecting higher unit costs, [compensated in] scrap pallets, and additional overheads to support growth across the Group.

Looking at the segments in more detail, starting with CHEP Americas on slide 13. Sales revenue growth of 7% was strong, driven by price realisation to recover a higher cost-to-serve and volume growth across the pallets and containers businesses.

Underlying profit in the Americas region increased 15% in constant currency, with a 1 point improvement in the region margin. The US business delivered on the 1 point margin improvement target for FY21. That was despite the inflationary pressures and cost increases due to demand volatility and pallet availability constraints.

The Canadian business delivered strong revenue growth and improved operating performance, including benefits from the stabilisation and the mix stringer to block pallets in the region, with stringer pallets accounting for 25% to 40% of the pool.

In Latin America, better commercial terms with increased pricing reflected recovery of higher cost-to-serve with increased transport costs in the market, supporting asset recollections and relocation of pallets to service customers. Successive years of improvement in asset efficiencies also supported another year of strong cashflow generation in Latin America.

The Americas profit bridge on slide 14 highlights the success in recovering higher cost-to-serve to better pricing in commercial terms across the region and efficiency benefits from the increased investments we've been making to improve supply chain efficiencies in the US business and asset control in Latin America.

We experienced a number of operating cost pressures from lumber and transport inflation, and additional costs were incurred to manage variability in customer demand, changes in network flows, and pallet availability challenges, particularly in the fourth quarter.

In addition to pricing and surcharges, benefits from lower damage rates and increased network capacity from US automation and improved lumber procurement and processing practices across the supplier base helped further offset plant and transport cost increases in the year.

Latin America asset control initiatives continued to reduce losses in that business and have delivered a range of initiatives now being rolled out to other markets to support improved asset efficiencies and lower losses in other markets. IPEP in the region, however, increased US$39 million, recognising higher FIFO pallet costs and lower pallet recoveries in the US market.

I'll now cover this in more detail on slide 15. As outlined on the left-hand side of slide 15, there are several factors impacting pallet recovery and loss rates in the US market. There has been an increasing gap between recycler incentives for the return of our pallets and both their costs to recover pallets and the value of pallets to third party.

The collection of pallets has also been impacted by labour and transport capacity constraints, and in some cases, access to sites has been restricted due to COVID-19. Both the scarcity of pallets in the market and the increase value of pallets driven by lumber inflation have disincentivised the efficient return of our pallets and has led some manufacturers and retailers to increase pallet safety stock levels across their supply chain to manage pallet availability challenges and demand variability which has further reduced returns.

In response, we are progressively implementing actions to increase pallet recovery rates. We do however note that the market dynamics impacting pallet recoveries in FY21 are expected to persist in FY22. Some examples of the actions being taken include increasing the use of smaller trucks to enable higher frequency collection of smaller pallet quantities, changes to recycler incentives, and where appropriate, also taking legal action to enforce our legal title and contractual terms with market participants.

We are also working collaboratively with retailers and manufacturers to reduce inefficient [unclear] pallet stock holding and to reduce flows to higher loss lanes. We're also progressively implementing higher pricing in these lanes, with pricing implemented to date on approximately 25% of [unclear]. We anticipate improving pricing to reflect these higher costs under coverage to be progressively implemented over the next 12 to 24 months as contracts come up for renewal.

In addition to actions already being implemented, we also have a number of initiatives under development to drive step changes in end-to-end processes and controls by improved use of data and integrating new digital capabilities to specifically tackle asset control in higher loss lanes.

These initiatives are being developed with plans for progressive implementation during FY22 and with the expectations that some of these initiatives will have application beyond the US market. Specifically, in the short term, we plan to increase the use of data analytics in the US and improving processes, leveraging best practice developed in other markets such as Mexico and Latin America to detect anomalies in customer and retailer declaration, enabling more timely interventions for indicators of loss and inefficiency.

This will support more informed and timely collaboration with customers to improve supply chain efficiencies and lower costs. Experience in other markets has proven that timely and frequent communication with the market participants improves asset accountability and recollection rates in the market.

Building on this, another development, the global assets team is now working with the US team to implement initiatives including the use of advanced data analytics using existing data to more efficiently deploy our asset collection engine and facilitate better action plans and communication with our customers, retailers, and recyclers to improve asset efficiency and reduce losses.

The planned initiatives will be supported by the accelerated deployment of digital assets to further illuminate areas of higher loss in the supply chain that will help us to improve asset returns with more granular flow insights. We're also developing plans for the use of artificial intelligence and machine learning tools using our data to support predictive, iterative tools that further improve the efficiency of our collection engine and overall asset management resource allocation.

Turning to slide 16. The US revenue performance was driven by a 5 point contribution from pricing as the business aligned contractual pricing with the higher cost-to-serve in the region. Like for like volume growth of 2% was driven by demand from existing customers in the consumer staples sector.

The rate of growth moderated in the second half of the year as the business cycled record levels of demand linked to panic buying following the outbreak of COVID-19 in the fourth quarter of the prior year. New businesses was flat to prior year, reflecting the focus on servicing elevated levels of demand [unclear] and with higher levels of variability in demand patterns from existing customers, while managing network and transport capacity constraints and changes in pallet flows due to multiple lockdowns and pallet availability challenges which were weighted to the fourth quarter.

Turning to slide 17. The US business has delivered on the objective of increasing margins by 1 percentage point with the combined benefit from pricing and supply chain initiatives contributing to the cumulative 2 points of margin improvement over the last two years.

In the second half of FY18, we commenced repricing of our contracts, recognising the need to increase US pricing to recover higher costs to serve and also recognising the need to have surcharge mechanisms in place to manage overall cost recovery in inflationary environments.

Since 2018, the business has successfully renegotiated contract pricing and improved coverage of cost inflation with over 80% contracts now containing lumber and transport surcharges. We also – as we had recognised in FY18 – recognising the need to improve the overall cost efficiency of the business, invested in supply chain automation programs, and other initiatives to reduce damage rates and improve lumber procurement and supply processes.

Both the lumber procurement strategy and the first phase of US automation program announced at our investor day in 2018 have been completed, with both initiatives delivering benefits ahead of expectations. On automation, the 52 automated service centres have added 20% of additional repair capacity and 30% of additional inspection capacity to the US network.

We will be outlining further plans for the next phase of supply chain automation and efficiencies across the Group at our investor day. In addition to the US businesses delivering a 1 point margin improvement in the year, it should be noted that the overall Americas region also delivered a 1 point margin improvement in the year.

Moving to CHEP EMEA on slide 18. The region delivered margin expansion and improved returns despite significant operating challenges resulting from both COVID-19 and Brexit. The region delivered strong revenue growth of 6% with operating leverage as the revenue contribution to profit and supply chain efficiencies offset input cost inflation and the additional costs of managing changes in network flows and supply chain disruptions associated with COVID-19, Brexit, and scarcity of transport and lumber in the region.

ROCI increased 1.8 points, reflecting the strong profit performance, disciplined capital control in the pallet businesses, and lower CapEx spend in the automotive business. Turning to slide 19. EMEA sales revenue increased 6% with price and volume momentum across all businesses.

Price realisation was 2%, with higher contractual pricing and indexation to recover accelerating input cost inflation and Brexit related heat-treating costs primarily in the second half of the year. Ongoing customer [convergence] in Germany, and the rest of Central and Eastern Europe region were the main driver of the 2% increase in net new business wins in the year.

Higher levels of at-home consumption, customer stockpiling, and reopening of economies in the latter part of the year resulting in increased levels of demand from existing customers, as well as the recovery in the automotive business, also contributed to the 2% increase in organic volumes in the year.

Moving to slide 20, CHEP Asia-Pacific. CHEP APAC delivered a strong ULP contribution with revenue momentum across the pallet businesses and increased contributions from the large Australian RPC contract won in the prior year. Underlying profit increased 12% with 0.7 points of margin improvement driven by US$10 million of one-off income including US$8 million of site compensations related to the mandatory relocation of a service centre which offset start-up costs associated with the large Australian RPC contract.

ROCI increased 1.2 points as improved margins offset the higher capital investment to support the new 10-year RPC contract and ongoing upgrades across the pallet service centre network which are delivering operating efficiencies across the network.

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Turning to cashflow on slide 21. Cashflow for the year is the highlight of the results, with very strong free cashflow generation of US$341.2 million. Excluding timing benefits expected to reverse in FY22 related to delayed pallet purchases of US$180 million and US$35 million of tax payment timing benefits, free cashflow after dividends was a positive US$126.2 million.

Operating cashflow of US$901.1 million increased by US$146.3 million over prior year driven by earnings growth and increased compensation across the Group, with working capital also delivering further improvements in FY21 citing an exceptionally strong contribution in the prior year. These increases were partly offset by higher cash CapEx – capital expenditure despite improved payment terms as lumber inflation impacted the cost of pooling capital investment.

Looking at capital expenditure and asset efficiency in more detail on slide 22. Asset efficiency momentum across the Group was impacted by lumber inflation and changes in customer and retailer behaviour driven by pallet shortages, particularly evident in the US market.

Group pooling capital expenditure increased US$228 million in the year, resulting in a 3 point increase in the Group's pooling to CapEx sales ratio, which was 20.6% for FY21. Lumber inflation accounted for US$150 million or 2.9 points of this increase with the balance of the increase reflecting US$80 million of additional equipment purchases to support volume growth.

Lumber availability constraints in the second half of the year resulted in US$180 million of delayed pallet purchases, which will be recognised in FY22 and are therefore not reflected in the FY21 expenditure profile. As you can see from the regional charts in the bottom-half of the slide, the impact of lumber inflation and pallet scarcity was most acute in North America where pooling CapEx to sales increased 6.7 points in the year.

Lumber inflation accounted for 5 points of this increase, with US$140 million of pallet purchases equivalent to 6 points of CapEx to sales deferred into FY22 and reflecting higher losses in the year. In Latin America, the enhanced asset management program further reduced loss rates, supporting asset efficiency benefits, which was – which largely offset the 6 point impact of lumber inflation in the year.

In EMEA, lower year on year CapEx spend in the automotive business offset the impact of COVID-19 and Brexit related stockpiling on Europe asset productivity. With lumber inflation in Europe accelerating late in the year, the impact on capital expenditure was minimal and offset by delayed pallet purchases into FY22.

Turning to slide 23 and our balance sheet. Our balance sheet is in a very strong position and is well supported by strong free cashflow generation during the year. As at the year end, Brambles has US$1.4 billion of undrawn facilities and over US$400 million of cash deposits and is well-placed to recommence and complete the Australian dollar AU$2.8 billion capital management program during FY22.

We maintained our strong investment-grade credit rating and our financial ratios remain well within our policies with anticipated net debt to EBITDA of 1.6x on a proforma basis post the completion of the buyback and the reversal of highlighted FY21 US$215 million of cashflow timing differences.

Turning to slide 24, and in summary, [linking] and concluding. The resourcefulness, engagement, and agility of our people combined with our network advantage allowed us to deliver our FY21 commitments despite variability in demand as well as high [levels] of lumber and transport inflation and a range of supply constraints.

Top line growth and profit leverage reflected the resilience of our business in an inflationary environment with efficiency benefits and improved recovery of higher costs including investments in Shaping Our Future to unlock future value. We also delivered strong free cashflow in the year driven by increased earnings, working capital improvements, both of which supported investment for growth across the business, as well as the funding of our dividends.

Our conservative balance sheet positions us well to continue with the buyback program, which is scheduled to recommence on 15 September, after investor day. We continue to strengthen our leadership position in sustainability by achieving carbon neutral status in our own operations in FY21 and our setting ambitious 2025 vision to regenerative goals.

Finally, through our Shaping Our Future program, we are looking forward to the next phase of value creation for our customers, employees, shareholders, and for the communities in which we operate in. We are continuing to develop our plans, and the details of these will be outlined at the 2021 investor day on 13 and 14 of September 2021.

I will now hand back to the moderator for questions.

Operator: Your first question comes from Jakob Cakarnis with Jarden Australia.

Jakob Cakarnis: (Jarden Australia, Analyst) Hi, Nessa. Hi, Graham. Apologies if it's breaking up a little bit. The line was a little bit unclear when the handover started. Can we just focus, firstly, on the IPEP charges. It does seem to be an acceleration of those IPEP charges in the Americas, so just bear with me one second. The first half, they were $12 million. In the second half, they've jumped up to $27 million.

They seem to be increasing as a proportion of the revenue for the division. Can you just let us know how those IPEP charges will reverse? It seems as though you're guiding for that to continue into FY22? What are some of the behaviours that you're seeing from the retailers that are making you less confident that you can recover those pallets in the future?

Nessa O'Sullivan: Thank you very much for your question, Jacob. In terms of the IPEP increase, so I think first if we look at outside of the US business itself, every other region had improved asset efficiency, so we had lower losses everywhere else around the Group. So, as we look to the US, the amount of the increase of that, about a quarter of the full year increase was at the first half, which is roughly half FIFO, half loss.

So, nothing too alarming at the first half in terms of what we saw loss rate. What we started to see as lumber costs accelerated in the second half and as – and in the fourth quarter as well as scarcity of pallets became more evident, we saw that the pallets that we expected to come back, our flow through ratio, reduced, which meant we got less pallets back relative to those that we were issuing.

We could see that there were a number of factors. One was scarcity of transport and labour to do regular recollections. Secondly was the value of the pallets relative to the recycler incentives had widened further, and their cost to go and collect the pallets had gone up. So, it was a market dynamic that made it less of an incentive for recyclers to return pallets as quickly.

At the same time as we had [that] there was general scarcity across the market – you talk to anybody in the market, our competitors, everyone – we were having lots of people, new, potential customers who were coming to us saying, can you service us? But we were very focused on making sure we looked after our existing customers. So, all of a sudden, there was a big pallet scarcity across the entire market.

What was happening was, that there were some of the manufacturers, particularly, decided that they would hold onto additional safety stock to ensure that, while they would still experience some volatility in demand, that they also had extra stocks. So, for us, that meant if everybody keeps a buffer stock you lose efficiency in your network, and so as you think about what are some of the things that we're doing to address it, is first of all, making sure that people aren't holding inefficient levels of buffer because that means – that limits our ability to be able to service everyone efficiently.

There's been a lot of work done by the US team on that. They've also deployed more transport, more frequently going out in the markets, [so saying if there's] less pallets out there, intercept them quickly, and bring them back more quickly, so we have smaller trucks going out to pick up the pallets. We're also, as we've looked at changes in network flows and seeing that they're going to regions where we might not have had a strong recollection engine, we're also looking at changing pricing.

So, if you're a customer who has flows into those areas we're experiencing higher loss, we're putting on higher pricing. Working with those customers, saying, well, in some cases, this is the increased cost, or in other cases, is it appropriate to use a pool pallet for this particular flow if losses are high.

So, those are some of the things that we're doing. But because we haven't yet seen supply come back into the market because sawmills – so if you look at, well, what would unlock the supply? Because we had to defer actually buying pallets. Not that we didn't have the cash to buy the pallets. You can see that even if we had bought the pallets, we'd still have had a really good, strong cashflow generation.

So, we need to see more supply come back into the market before that scarcity factor comes back out. That's a combination of supply all the way through the supply chain because there are bottlenecks currently and – not all of the sawmills are getting all the labour back to be able to get capacity back in. It's getting all the transport flowing again.

Look, we have seen some moderation now in the lumber's future. We have seen a little bit of a drop in the pallet price over the last month, but we're saying we haven't seen enough to say we would expect to see a big step change or improvement in recollections over FY22, but you see there's a whole range of things that we've put in place, and there's other things that we're doing that we are doubling down and focusing on this in terms of recollections.

Hopefully, that gives you a sense of the first half, second half, and some of the key dynamics.

Jakob Cakarnis: (Jarden Australia, Analyst) Yes. Thanks for that, Nessa. Just a follow on then, focusing on the US margin expansion of 100 basis points that you reported. I imagine that those lumber surcharges started from the second half because the first commentary I can see from that is at the third quarter. It seems as though you take that US$60 million of lumber surcharge that you got in the second half, you would have had a margin benefit of around 6 percentage points.

If I add in the IPEP charges that you just described, it would detract from margin around 200 basis points. Am I right in thinking that the remaining difference to go to the 100 basis points of margin expansion was a combination of labour and transport cost increases?

Nessa O'Sullivan: So, I think what you need to do is I suppose get a bit up in the helicopter. So, as we've said, the lumber inflation is weighted towards the CapEx. So, there was a big increase in CapEx in the US business in terms of [spend], so we had over $100 million extra in the US itself.

We also had an increase in lumber repair costs. So, as we recovered the lumber surcharge, we also had going against [plant costs] efficiencies, remember, we – from procurement and we also had efficiencies coming from the investments from service centres and from investments we did in processing efficiencies in the sawmills.

So, you can see that there's a slide in the deck that sets out all the components, which is slide 17, and that really is the same slide we've been showing for the last three years, saying, actually, it's a whole combination of these, and we committed that we would get pricing and we'd get better surcharge recovery.

It's never an exact science as to how good a surcharge is in terms of the actual cost recovery, and in the first half of the year, you may recover – you may recall that we talked about – that we had higher transport costs but that not all of it had been reflected in the cap index, so we had lower recoveries relative to the costs we were incurring in terms of transport.

So, I don't think you can look just at one item by itself. I think you need to look at all of the costs on a combined basis and transport, with the volatility and demand, you're buying a lot of [unclear], the cap index, that we get a surcharge recovery on, may not react and may not be at the same level to recover that. So, hence why we've broken out the components and I guess, from your perspective, you can move the numbers around and look at it in different ways, but I think you have to say, we're in an inflationary environment.

We said in 2018 we were going to get much better surcharge recovery; we were going to have better pricing discipline. I think it's pleasing to see we've gone through a period of mass disruptions to our network and record levels of inflation that we've managed to deliver marginal improvement.

Jakob Cakarnis: (Jarden Australia, Analyst) Thanks, Nessa. One final one from me. The second half trend in organic volumes for the US pallets business, the right trend to extrapolate as we look into FY22. I know that there's some COVID comps that you guys are cycling. Is there anything that could move around, i.e., lockdowns restarting, that could move that number from the second half, please?

Nessa O'Sullivan: Well, I think there's a couple of things. First of all, we're not giving guidance today, so we'll give you more granularity when we get to investor day. But I think it was interesting to look at the US pallets business and the chart that we always put in, in the first half, we showed 7% growth, which is the same as the full year, except in the first half, 2% was priced, and 5% was like-for-like volume.

We swing to the second half, and it's 2% in like-for-like volume on a full year basis and 5% on pricing. That really is the cycling where we had in the second half of the really big cycle volumes, organic volumes, generally at a lower rate, but also reflecting some increased pricing as contracts have come up for renewal in a higher cost environment.

Jakob Cakarnis: (Jarden Australia, Analyst) Thanks, guys.

Operator: Thank you. Your next question comes from Matt Ryan with Barrenjoey. Please, go ahead.

Matt Ryan: (Barrenjoey, Analyst) Hi, Nessa. Hi, Graham. Just focusing, again, on the US market. Obviously, the backdrop seems really supportive for price changes for a number of different reasons. Just wondering whether you think you can speed up any of those contract discussions to make the most of the current conditions?

Graham Chipchase: As you know, most of the contracts are – they're, on average, three years. There's a cadence to negotiations. In some instances, customers want to start negotiations earlier. In others, they don't. So, they're probably not keen to do it right now.

But I think what we've been talking with customers about is how can they help us to improve pallet recollections and, in some instances, we've obviously said and if you continue to send pallets down my cost-to-serve lanes, we have to increase prices for those lanes because our cost to serve are getting much higher or let us help you find a supply of whitewood, where – which might be a much more appropriate platform.

So, those conversations are going on. In terms of the general pricing environment, one could argue that with massive pallet scarcity, this is a good time for price increases. I wouldn't do that. I think we can – we said this back in the half year results. The environment for price increases is still good because they're in a cost – a high cost inflation environment. There is still tight supply and demand, if anything it's even tighter, and there's still disciplined competition.

So, yes, the environment is still good if we're looking forward over the next 12 months, but we've also got to balance the fact that our customers are having a very tough time supplying their own customers. So, it's not the time to get too aggressive.

I think what we're trying to do now is work with our customers to try and create value and efficiencies for both of us, rather than going in with big price increases. So, I'm not saying we're not going to do it, but right now, I think we've got to be very careful because we've got to look after our customers rather than make them feel like we're just taking advantage of the situation.

Matt Ryan: (Barrenjoey, Analyst) Okay. Then maybe just looking at your comments around pallet recoveries. I'm not sure whether I'm interpreting your comments, Nessa, correctly, but it seems to be a greater focus on that than I would have expected. Just curious as to how that much worse that seems to be getting at the moment, and I think you made some comments about the recyclers specifically. Can you just talk about the changes that you might be looking at? I assume you must be referring to the asset recovery program that's sort of been reduced over the last few years.

Nessa O'Sullivan: So, yes. A few things. First of all, we haven't had an asset recovery program that's been reduced over the last few years. So, that's been a key focus of ours, to go for asset efficiency. In the year, well, we've got asset efficiency improvement in every market except for the US. Certainly changes in circumstances are not where we want to be, but we recognise the value in having an efficient asset pool for everybody as well as linked to our sustainability goals.

So, when we see something going out of whack and not going in the direction of travel that we want, we're going to double-down and make sure we've got best practice – focus on best practice. So, with recyclers, in some cases, we've increased recycler rates, and it's set out on slide 15. We are focusing on recollecting assets. The asset is even more valuable in scarcity.

If you can't buy new assets, you want to send out more trucks to go and pick up the pallets more often. But we're just saying we expect to do – as we make these changes, you won't see an overnight change in terms of a high return of pallets because there's other factors in the marketplace that are impacting the return of pallets.

So, we're recognising the need to take further actions to address it and say if the market is changing and we continue to see volatility and these other dynamics and if we see higher costs ongoing, then investing in further improved automation of how we communicate, further enforcement of legal title in places where we're not getting our assets back as well as how can we use the data better and leverage our network better so we're in a better cost and service position for our customers.

Matt Ryan: (Barrenjoey, Analyst) Thank you.

Paul Butler (Credit Suisse): Thanks. Great. Just a question on the new business wins in the US market. Obviously, you've been busy servicing your existing customers pretty much for the last two years, when do you anticipate being able to take on new customers, and I imagine there's a fair bit of pent-up demand there. Just want to get a sense of the opportunity there.

Graham Chipchase: Yes. So, we – it's not that we haven't been going after new business in the last two years. If you go back to slide 16, you can see in fiscal 2020 we had 2% growth in new businesses. It's only really been over the last year as we've obviously – as Nessa's been talking about, with the pallet scarcity. Now, I mean, in reality, I think we saw towards the end of the second half, a tiny, tiny pickup in a couple of net new business wins, but it was really lost in the roundings.

I think what we're saying is, until we see the availability of new pallets and the supply of new pallets become a lot easier in the US, which we're not calling yet, then I don't think our priority should be to go after new business. It needs to be making sure that our existing customers are fully satisfied, and I think that they deserve that.

That's what our focus is going to be. So, the answer to your question is, when we see pallet – lumber prices decline significantly, and when we see people getting back to work so that the sawmills can get up to full capacity, then we might be able to start looking at the situation differently, but we don't know when that is yet.

Paul Butler (Credit Suisse): Right. But you've got extra capacity, haven't you? From the automation of the plants that you've done in the US. Is it just simply the...

Graham Chipchase: Yes.

Unidentified Male: ...lumber that's the constraint?

Graham Chipchase: There are two things. One is there is – the lumber is a constraint. It's not getting to the sawmills, and the second thing is, the sawmills haven't been able to run at full capacity because they haven't got the people. People aren't going back to work yet in a lot of the sawmills. It's a combination of the two. We've got the capacity to handle the pallets in the service centres. It's – we just haven't got the ability to get the pallets into the system because there's not enough wood and there's not enough sawmill capacity.

Paul Butler (Credit Suisse): Right. Just – it seems, you know, in the US business, that there's a string of things that go wrong in terms of – I mean, you're highlighting today that manufacturers are building more safety stock, it's harder to recover the pallets. It seems like there's always something going on there, but they're things that don't seem to occur to the same level of frequency in, for example, in your European business.

I'm just wondering is there something that you can do to get in front of driving the behaviour of the – your customers and the supply chain, rather than sort of, to some extent, having to react to what they decide to do in each period?

Graham Chipchase: Well, I think my first response to that question is, I think the work we've done over the last couple of years has been exactly that. It's to get in front of what's going on in terms of making sure the contracts were changed to accommodate potential inflation and cost increases and to adjust the cost-to-serve – recognising our cost-to-serve had increased over a long period of time and it hadn't been reflected with the customers.

Then to address the automation capacity issues or the issues [unclear] by doing the automation as well as, I think, being really innovative in how we disrupted the sawmilling – the network in the US. So, I think that – if that wasn't getting in front of the – if that – I don't know what is, because that was really, really innovative and has given us huge benefits.

So, but US is – I think we've talked about this in the past – is a very different market to Europe. Europe is a very fragmented market. It's a more complex market, and therefore it's much easier to maintain good margins, whereas in the US, you've got a much more consolidated customer base. You've got a much more consolidated retailer network, and therefore the balance of power, if you want to use those phrases, is somewhat differently distributed.

So, I don't think it's something about there's always something going wrong with the US. It is a massively complicated region and business. I think the other way I'd look at it is despite all the confusion and turmoil that the US has been through over the last 12 months, we still were able to increase the margins by 100 basis points. So, I think that's a good sign that actually we are getting on top of these things, in front of them, not that we're always being reactive.

I think we're just trying to be transparent here and say, look, it's obvious if you look into the numbers, there is a change in the recovery of the pallets in the US. It appears to be for really, really understandable reasons, when you've got no pallets available and the value of them has rocketed, people – humans are – our customers and retailers are only humans. It's obvious that they're going to want to hold onto those pallets for longer.

That's all we're calling out, and I think it's incumbent on us to share with you, what are we going to do about it? Which I think Nessa went through in a great amount of detail. I think that's all we're trying to do. I think we're all well aware, in

Brambles across the globe it's always a case of whack-a-mole. I mean, you've got – we're in 62 countries. There are lots of things going on.

If you think about the exposure to macroeconomic and specific supply chain issues, because we're never going to have all eight cylinders running perfectly all the time. I think it's how we react to them and what we're doing about it is more important. Which I think in the US we are – we're doing the right things, and it's going to take a little bit of time to come through, but we've shown, I hope, over the last few years, that when we spot these sorts of things, we get on them, and we sort them out. I mean, Latin America is a good example.

Paul Butler (Credit Suisse): Very good. Thank you very much.

Graham Chipchase: Thanks.

Operator: Thank you. Your next question comes from Owen Birrell with RBC. Please, go ahead.

Owen Birrell: (RBC, Analyst) Thanks, guys. I'm probably just going to ask another similar question to the hoarding issue in the US. Can I just ask, just firstly, the $180 million of pooling CapEx that's been deferred this year, is that going to be incremental to what you would have otherwise spent next year, or is it just a – you know, $180 million of CapEx that's effectively just going to be lost or pushed down the road into perpetuity?

Nessa O'Sullivan: No. It doesn't get lost into perpetuity because we're not operating efficiently at the moment because we've got less pallets than we'd ideally like. We're not going after new business the way we would to grow the business further if we had more pallets. So that's why we called out that we had $341 million of free cashflow. We're saying we should really, ideally, have spent another $180 million and bought those extra pallets. That's where we ideally we would, and spread across the market, but the biggest piece of it is in the US.

On that slide where we set out the asset efficiency, that clearly – CapEx slide, we actually have shown by market – slide 22. We've shown the amounts in each market that's been deferred. So, you should assume it's an add-on because we need to buy that and then we'll have some ongoing growth.

Owen Birrell: (RBC, Analyst) Is it fair to say that, I guess, the pooling CapEx to CapEx ratio should be sort of back around that sort of 20-odd percent going forward? Or should we – or what you're saying is that we get a bump on that next year?

Nessa O'Sullivan: Well, you'll have to factor in – so we're not going to give guidance. That comes in September. But you should assume – which I probably shouldn't be going into this, the future piece – but you should assume that what you might have thought we would spend for next year, you need to add on this additional amount.

Owen Birrell: (RBC, Analyst) Yes. Okay. Did you have a sense of – you talk about the hoarding of pallets. Can you give us a sense of what percentage of the pool that's being, I guess, held back? Give us a sense of, I guess, how material this issue is, and what percentage of the pool effectively gets released when it stops?

Nessa O'Sullivan: Well, as you know, this isn't going to be overnight. Everyone's now stopped [to back haul] the pallets. There's always some level of inefficiency where people have pallet staged. But if you're – if there's volatility, demand, and everyone is moving pallets around, and you think you're going to need extra pallets next week, then it's unlikely you're going to – you will want to have additional safety stock so that you have some buffer.

The problem is that everybody gets the idea at the same time, you end up with this extra inefficiency. So, look, if you think about the US market, around 180 million pallets, it's not going to be 10 million pallets that are tied up in it. But you can imagine it would be a couple of percentage of the pool at any given time.

Owen Birrell: (RBC, Analyst) Okay. Look, just one final question on EMEA. Look, the growth rates out of that market look significantly better than, I guess, what you – I guess the dire commentary that you guys were providing at the end of the last calendar year. I'm just wondering, what has changed so materially in EMEA that the growth rates that have actually been delivered are so much stronger than, I guess, what you were alluding to previously?

Nessa O'Sullivan: A couple of things, I guess, have been – so, you know, in Europe, there's been a bit more of relaxation of lockdown, although there's been lockdowns, there's been periods where it's actually – you've had the supply chain refilled and you've had some pull-through and we've sort of had some good performance from beverage as well.

We have also seen a bit more inflation which as you get to indexation adds also a couple of points on your pricing. It's fair to say that we've also managed to have some pretty impressive wins in Germany and Central Eastern Europe ahead of where we thought we would be, is probably a cumulation of it.

I think there was a lot of discussion, if you look back at the press, economic commentators, that a lot of people were saying, we expect this to be an economic downturn, we expect to see a more serious downturn, we have actually seen, because we've had a good offering for our customers, and because we've got the strength of our network, that others have looked to get support from – particularly in consumer staples, and we've been very well positioned to be able to take advantage of that.

Owen Birrell: (RBC, Analyst) Right. It's – can we assume that I guess – I mean, obviously, I don't need you to provide guidance, but just that the operating environment is still moving back to a normalisation over the course of, you know, the next six to 12 months?

Graham Chipchase: I don't think I would say that for the next six months. I think we'd have to look at it. For calendar 2022, it might be. I mean, if you just think about what we do know. So, again, we're not looking to the future here, but we know at the moment, your home country is going through more lockdown rather than less. Europe is doing the reverse at the moment.

US is a bit of a mixed bag. In some parts of the US, it's actually quite bad. In others it's not. You've got – we had massive floods in the summer in Central Eastern Europe. We had civil unrest in South Africa. It's a real hodgepodge. I think trying to sort of say it's definitely getting better directionally globally is quite a hard thing to say.

So, I think also – and we've been saying this for 12 months now, we still don't know what the real impacts of when a lot of government subsidies comes off in certain countries, what that will do for consumer demand. So, we're planning, at the moment, on things are as volatile and difficult to manage as they have been for the last 12 months.

The good news is we did okay in the last 12 months. We're – I think in the model we can now show the resilience and can cope with that level of volatility and uncertain demand. So, you know, we're in as good a place as we've ever been to cope with what's ahead.

Owen Birrell: (RBC, Analyst) Understand. That's great. Thanks, guys.

Operator: Thank you. Your next question comes from Sam Seow with Citi. Please, go ahead.

Sam Seow: (Citi, Analyst) Hey, guys. Thanks for taking my questions. Maybe an easy one to start, am I right in assuming corporate costs are up $50 million half on half? I mean, could you provide us with some colour on that, and I guess, the returns on that spend?

Nessa O'Sullivan: So, yes. We highlighted that we had our Shaping Our Future costs were up by $25 million including BXB Digital and we also said that we increased corporate costs overall $19 million, which was other costs, which was also to support growth.

But look, we've got the same inflationary environments that others have got. [Unclear] some of the higher costs, you've got insurance and other costs are in there. We will go into more detail when we talk in September about what the Shaping Our Future investment we expect that to unlock.

But I guess the major thing to note is that we delivered leverage, including those costs, and the costs are being used to support growth and also a big focus on the increase of the costs has been about – towards this transforming the business that we'll be able to talk more at investor day about. I don't know if you want to add anything.

Graham Chipchase: No.

Nessa O'Sullivan: No.

Sam Seow: (Citi, Analyst) Yes. Okay. Sure. Sure. I guess it's a similar question to the prior one, but just more on America. I guess, previously you talked about a slowdown in sales in the second half, but your 3Q and I guess your 4Q run rates haven't softened at all really. I guess, what was the difference to your initial expectations, and what do you put that down to?

Nessa O'Sullivan: Are you talking the US?

Sam Seow: (Citi, Analyst) Yes. The US pallets.

Nessa O'Sullivan: If you're talking to the US, we did. So, the first half, we had 5% volume growth in the first half. Then on a full year basis we have 2% growth. If you look on slide 16, but if you look at the same chart we released at the first half, the makeup of 7% revenue growth was 2% price and 5% volume. So...

Sam Seow: (Citi, Analyst) Yes. I was talking...

Nessa O'Sullivan: So, we have seen that, and we knew that was coming. Sorry?

Sam Seow: (Citi, Analyst) Sorry. I was talking to the 7% sales growth. Really, price has been a lot stronger than you were thinking or were you always expecting to push through 5% kind of pricing?

Nessa O'Sullivan: We were highlighting – so, the volume. We always knew the volume was going to be a challenge as we were cycling. It's fair to say that as there's been more inflation in the market, and as we've been repricing contracts, it's been reflective of the environment with higher cost-to-serve.

But it's really, we anticipated that we'd be cycling because remember the big [fight] we had last year meant that we had much higher volume in the second half. So, if you look at the half one half split last year, you'll see that. So, hence why, on a full year basis, as we had indicated, the volume is a bit lower. Also, a lot of that increased cycles with the – with major customers.

So, therefore, there is some pricing mix benefit as well as some increased pricing because of the higher cost-to-serve environment.

Sam Seow: (Citi, Analyst) Cool. Cool. I guess, the results showed pretty good operating leverage. I mean, part of that was automation in the second half. Can you maybe help us understand how much full year analysation of benefits, I guess, are left to roll into FY22?

Nessa O'Sullivan: So, look, we've – we outlined the investments, and we outlined that we'd get a 20% return. We just sort of don't detail by half, but it's fair to say that the programs are completed, you can think the benefits are included in – there's a small amount of additional benefits still to come on the cycling year on year into next year, which is from the ones that we've converted in the second half.

Sam Seow: (Citi, Analyst) Great. I guess, finally, from me, you've had great success with the pass-throughs in reducing the impact of rising input costs. Could you maybe talk to leverage to declining input costs? I mean, I imagine that's less than previous years, or am I missing something?

Nessa O'Sullivan: Sorry. Could you just repeat that? You broke up a lot in the question there and we couldn't quite hear what you asked us.

Sam Seow: (Citi, Analyst) Yes. No worries. No worries. I was just talking about; you've had success in the pass-throughs which have reduced the impact of rising input costs. I was just hoping you could talk to the leverage to declining input costs if the delta slows or goes backwards from here?

Nessa O'Sullivan: Right. So, look, as – generally, when you look at surcharge and [unclear] to talk our level and obviously we can give you more context around what it means in terms of output in September, but generally, there's a trigger level at which the surcharges come into play.

So, usually, there's a – you absorb some costs up to a certain level. Then the surcharge comes into play, and you collect the surcharge, so – and on the way down, you delay as well, in terms of the surcharge. In the indexation in Europe though, it tends to be more – there's an annual index point which reflects an accumulation of increased costs in those indices that's taken in pricing.

So, there can be a timing lag. So, to your point, you can have either some benefits if you just reindex, and then there's a deflation that comes through in the following year, or alternatively, with those [indices] which generally have sort of a lag, maybe think 60-day sort of lag, but it varies, usually you suffer some pain on the way up, and you get a bit of benefit on the way down.

But obviously then cycling year on year, you have to look to see what happens with each of the indices because you could have a situation like we had this year, which we talked about in the first half, where we were in the lumber market – we were in the transport market buying transport, but our costs were higher than what the index was saying because we were buying at spot rate because they were lanes that we don't normally travel on.

Secondly, everyone – because of volatility demand, everyone wanted transport at the same time, but it didn't get fully reflected into the Cap Index. So, they're not perfect. So, the same happens either way. Hence, we tend to give that clarity when we do the results at the half year and the full year to give you some insights as to exactly what's happened.

Sam Seow: (Citi, Analyst) Great. Thanks for taking my questions.

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

Cameron McDonald: (E&P, Analyst) Hi. Good evening Graham and Vanessa. Just looking at the European business. You've said there's an improvement in your automotive. Can you give us a sense of where the scale up in your automotive business is at the moment relative to, say, its normal operational performance, say, in 2019?

Nessa O'Sullivan: So, Cameron, probably the best way to look at it and think about automotive is, in the fourth quarter of last year, basically, the automotive business stopped. So, we had very little contribution. If you look overall to the EMEA region, you sort of get roughly the increase as you come year on year, we've got – because we saw some progressive recovery, but overall, it's contributing about a point to earnings, and about a point to [ULP] growth in the region.

Cameron McDonald: (E&P, Analyst) Sorry, [unclear] last year?

Graham Chipchase: Over the whole of last year, yes.

Nessa O'Sullivan: The whole of last year. Yes. Yes. Sorry. Year on year because while it stopped in quarter 4, then we started recovering as we came into this year, but it wasn't full recovery. So, we were running at an index to prior year, so we were down year on year. Then as we got through the fourth quarter, where we were cycling, automotive was the one where we had much easier comps, because we basically stopped trading for that, or very, very little activity in that last quarter.

So, hence, on a full year basis, we ended up – it – where it contributed that 1 point to the region growth, and 1 point, roughly, to earnings growth. Just to put it in context.

Cameron McDonald: (E&P, Analyst) Okay. That's year on year, but what about, relative to, say, 2019?

Nessa O'Sullivan: Well, if you went down and now, you're back a point. So, you know, you've sort of – net-net you're up relative to 2019, but marginally. It's not a major step up.

Cameron McDonald: (E&P, Analyst) Okay. Thank you, and then...

Nessa O'Sullivan: [Unclear] go on.

Cameron McDonald: (E&P, Analyst) Sorry. I was just going to ask, what is your total spend to date on Shaping the Future? Am I right in thinking that it's $38 million, so it's $12 million or $13 million from last year, plus $25 million this year? Or is it plus $25 million over the exist – another $13 million?

Nessa O'Sullivan: Yes. The – so that's the level of increase that we talked about was the $25 million. So, yes. You're correct. It's in – footnoted in the corporate segment in the stat accounts as well. You can see the split out of that if you want to have a closer look, Cameron.

Cameron McDonald: (E&P, Analyst) So, it's closer to $50 million, so far? Okay. Thank you.

Nessa O'Sullivan: Thanks, Cameron.

Operator: Thank you. Your next question comes from Justin Barratt with CLSA. Please, go ahead.

Justin Barratt: (CLSA, Analyst) Hi, guys. Thank you very much for your time. I just don't want to harp on the corporate segment, but just in terms of the BXB digital cost and the Shaping Our Future costs, appreciating that they're pretty important strategical drivers for you going forward, is this a level of investment that we can expect year on year, going forward?

Graham Chipchase: I think that's one of the reasons that we want to talk about in the investor day because I think, obviously, one of the things over the last few years we've been doing is doing a lot of testing and experimenting, testing different [AM] technologies as to where we think we can transform the business and yes, disrupt ourselves before we get disrupted by anyone else. That was the whole point over the last few years.

I think what we're looking at now is we're in a position to have some of our ideas validated externally and start thinking, okay, how do we really now put this into action? So, you know, I think that's why we wanted to put the whole of the transformation program into context when we speak to everybody in September.

Justin Barratt: (CLSA, Analyst) No worries. Thanks very much for that. Just in relation to my next question, and I apologise if I've missed you making a comment at the beginning of the call, I just missed the commencement, but I just wanted to just double check on the plastic trial with Costco. I appreciate that there's been no update in the presentation. I just wanted to see if you had any comments in relation to that trial?

Graham Chipchase: The trial is ongoing, that's all I can say. What we're going to do is what we said in the presentation around – in September. So, we're going to give an update on the trial. We're going to talk about the strict financial criteria we would apply before we made any decision to try and at least give some confidence that, if we do go ahead to the trial, it will add shareholder value.

But I think we also want to talk about the sort of – the various drivers of returns within that system because, as we said before, it depends a lot on what you assume about loss rates, what you assume about the cost of a pallet, what you assume about the premium you charge in the market for this superior pallet.

So, that's what we have to look at, and we want to put that together so it will give some people confidence that we're not just doing this at any cost and at any return because I know we've said it consistently that we wouldn't do that, but it appears that people still don't really believe us. So, that's what we want to try and get across in September. We won't be giving – we don't know yet, the outcomes of the trials, and we don't expect that until early calendar year next year, and that's consistent with what we've already said.

Justin Barratt: (CLSA, Analyst) Great. Thanks for that. Then just one final one from me, I'm not sure if you can make any comment, but just in relation to Australia or the APAC business, I appreciate that margins and performance has been impacted to different levels by the new RPC contract onboarding from October 2020, and then the benefits from the service centre benefitting FY21. How should we think about the earnings and margins of that business in 2022 and longer term? Should they largely revert back to sort of FY19 or FY18 levels?

Graham Chipchase: I think we'd rather not talk about that. We're trying desperately hard not to give any guidance today. So, if you can wait for three weeks, we'll talk about it then.

Justin Barratt: (CLSA, Analyst) No worries. Sorry for...

Graham Chipchase: Thanks.

Justin Barratt: (CLSA, Analyst) ...harping on the point. Thanks very much.

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

Scott Ryall: (Rimor Equity Research, Analyst) Hi. Thanks very much. I just want to talk quickly about the US business which in my more than a decade looking at the Company, this certainly is the most resilient earnings performance in the CHEP Americas business to – that I've seen in response to the inflation. So, is it just – sorry, I just want to be really clear. Is it the – purely the combination of all those factors you put on slide 17 that contributes to this resilience? Is that the way to take that away?

Nessa O'Sullivan: I'm looking at – I'm making sure that I'm looking at the right slide. But yes. That is the way to think. I mean the...

Scott Ryall: (Rimor Equity Research, Analyst) US margin progress. Yes. Is the title.

Nessa O'Sullivan: So, yes. US margin progress and, you know, pricing and surcharges have played a really big role, but so too has all the work that we did in investing in our service centres because we wouldn't have had the capacity in the network to deal with all of this disruption and volatility and cycling demand if we hadn't got ahead of it.

So, the benefits have been a lot bigger than we expected. We got the financial benefits, but we've been able to support our customers much better. Similarly, we invested in sawmills. You know, the big sustainability benefits in terms of yields and usage also meant that we were in a good position that we had good relationships to be able to access lumber supply when it first became scarce, and also that we were able to manage costs in a challenging environment and where there was limited capacity.

So, we had financial, but there were other also facilitating things that came out of those initiatives that we put in place. So yes. I think it's fair to say as we looked at the business from 2018, the value of the lumber surcharges and things that we've put in place, we couldn't have anticipated it was going to get to this extreme level and have – and therefore give us a much bigger, I guess, hedge against the cost than we would have expected.

There's no doubt that the – it's pleasing to have completed the programs in line with what we said we would do, getting the financial benefits, but also getting the – real operational support and enablers for our business to be able to support our customers in a challenging environment.

So, I think there's unquantified pieces in there that have enabled us to support the revenue.

Scott Ryall: (Rimor Equity Research, Analyst) Yes okeydokes. Then, last year, in your full year presentation, on slide 29, your ongoing commitment was to deliver annual margin increases of 1 percentage point in fiscal 2021 and fiscal 2022. I appreciate you're not talking guidance today, but am I right to assume that doesn't change?

Nessa O'Sullivan: Scott, as Graham said, we're not giving guidance at the moment. We're just releasing to the market to say over the last two years we've got a point to margin improvement in each of the last two years, so that gives us this 2 points of margin improvement. I think, Scott, we're going to have to leave our commentary on FY22 to September.

Scott Ryall: (Rimor Equity Research, Analyst) All right. Okay. It was worth a try. In terms of the delayed CapEx, is it literally just, you didn't get to buy as many pallets as you would have liked? Is there anything else in there that was missing or delayed?

Nessa O'Sullivan: So, we didn't get to buy as many, but the reasons were many. In some cases where we could get lumber, we couldn't get the shipping containers. So, in other cases, people were outbidding us for lumber, and we ended up prepaying for some lumber or doing cash to get lumber where we normally had longer payment time.

The combination of all that, plus the sawmills [didn't have] the capacity. Then when you do get the lumber, you can't all of a sudden make all the pallets you want because there's pallet manufacturing constraints as well. So, yes, literally, we're running our stocks across our Group below the ideal level that we will hold because if you hold less pallets, it costs more money because you have to relocate more pallets.

You have to run plants more inefficiently because you have less of the new pallets coming into the flow, so you do more quantum on repairs and overall, you're doing more transport miles. So, it is literally if we had been able to – and you can see from our great cash result that we had plenty – it wasn't a case that we were saying we couldn't afford to buy these pallets and we were trying to make the cash look good. We actually had a lot of cash, and it would have – we would have much preferred to start the year having paid out that cash and had those pallets on hand.

Scott Ryall: (Rimor Equity Research, Analyst) No. Sure. That – I was just trying to figure out if it was literally just CapEx or – sorry, pallets, or whether there was other CapEx that was also delayed outside of pallets. But it sounds like it was principally pallets [unclear]...

Nessa O'Sullivan: No. No. We had some movement. Yes. We had some movement in non-pooling CapEx from first half to second half which came about from some of the COVID closures. But the reason why the non-pooling is a bit lower is really about the completion of some of those bigger projects that we outlined in investor day in 2018.

Scott Ryall: (Rimor Equity Research, Analyst) Okay. Then, can I just ask, in Graham's sustainability slide – sustainability achievement, slide 6, I think it is. You mention the first closed loop upcycled plastic platform in the market. Can you...

Graham Chipchase: Yes.

Scott Ryall: (Rimor Equity Research, Analyst) ...just give a little bit more detail? I'm not sure if you skipped over that for a reason, but what market, what – can you just talk a little bit more about that, please?

Graham Chipchase: Yes. It was in Europe. It was called the [dolly] Q+, which I knew you wanted to know that, Scott. So, what it – what – the whole thing about upcycling is, is about, is making sure that you're producing products from waste plastic which have a higher value or utility than the waste that it comes from. That's all it is.

It's a – as you might know, it's quite difficult to create – particularly for things like, for pallets, so structural plastic, out of wholly recycle plastic is quite tricky to do, and this is the first example of one where we've actually done it and launched it in the market.

Scott Ryall: (Rimor Equity Research, Analyst) Okay. Sorry, which market is it?

Graham Chipchase: Europe.

Scott Ryall: (Rimor Equity Research, Analyst) Yes. You said before it's a whole bunch of different markets. Have you got a particular country that you've launched it in, or is it lots of different countries?

Graham Chipchase: I think it's in a couple. I don't know off the top of my head which ones it is, but it's in a couple in Europe.

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

Graham Chipchase: Thanks.

Nessa O'Sullivan: Thanks, Scott.

Operator: Thank you. Your next question comes from Andre Fromyhr with UBS. Please, go ahead.

Andrew Fromyhr: (UBS, Analyst) Hi there. Just curious about the increased pricing for higher risk lanes. How material is that relative to base prices and how receptive are customers to find out they're paying more because they're considered higher risk?

Nessa O'Sullivan: So, you, as a consumer, if anybody tells you that you have to pay more for stuff, you're not going to be overjoyed. So, I think it's fair to say that customers don't like paying more. So, you know, for us it's about going through the economics and explaining why the cost-to-serve are higher. In some cases, it makes sense, and they put it on a whitewood pallet, or they don't use a pool pallet if their losses are higher.

They still – it may be that they accept the premium. They're prepared to take a premium, then they price their products, accordingly, factoring in it's a higher cost-to-serve in that market. Every business has different markets where it's higher cost-to-serve, and most people have got regional or other prices, zone pricing, et cetera, that reflect what the costs are to serve.

So, in terms of our business, we sort of always sort of run the NPD or what we would call those non-participating that tend to be higher risk at the sort of 7% to 8%. You might say with flows changing and dynamics changing, somewhere under 10% of our total flows.

For us, it's about when people recognise what the real cost-to-serve is, they sometimes then change behaviour as a result. So, we would rather not lose the pallet or else we have to charge appropriately for the pallet. So, hence, it's a bit about collaboration with customers, retailers, et cetera. It's also looking at how can we get – how can we – and we talked about paying more in terms of the extra collection engines, having some higher recyclers, enforcing legal titles.

So, we're doing our bit from our end to improve recoveries from those so that they're not as high loss, and – but we do have to reflect cost-to-serve, and you should – the premium that we charge is commercially sensitive, and it is tailored depending on the loss experience for each particular customer. So, that's not something that we would talk about.

Andrew Fromyhr: (UBS, Analyst) Got it. Is it sort of a step in the direction of even more price discrimination across your portfolios such that you're considering the characteristics...

Nessa O'Sullivan: I would say differentiation, not discrimination. I think it's more aligning pricing more closely with the actual cost-to-serve and in some cases, the increases are material.

Andrew Fromyhr: (UBS, Analyst) Sure. Just one final one from me, the – and as much as you're not talking about FY22 guidance, there is a comment about increased investments in initiatives in FY22 with the benefits to yield in 2023. Am I right in assuming that's referring to continued spending under the Shaping Our Future program or is there sort of another layer on top of that?

Graham Chipchase: I mean, if you go back to what I said, it is absolutely about the fact that we're recognising some of those investments that we need to make to deliver the Shaping Our Future transformation programs. So, yes. That's exactly what it's going to be about.

Andrew Fromyhr: (UBS, Analyst) Okay. Thanks.

Graham Chipchase: Thanks.

Nessa O'Sullivan: Thanks.

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

Anthony Moulder: (Jefferies, Analyst) Good morning, all, or good evening. Just a couple of questions. If I start with surcharging, the $60 million that went through the US or the Americas business, let's just say, I understand surcharging is for the higher cost of lumber through the repair process, but are you also surcharging on the cost of new pallets for customers that were demanding those new pallets?

Nessa O'Sullivan: Our lumber surcharge that we charge, Anthony, is linked to the actual index that's part of their contract. So, it is reflected in what gets negotiated and linked to that. But, yes, lumber impacts us in two ways. One in our P&L through repair lumber that's used in our service centres to repair pallets, and secondly, in the capital cost.

So, while there's an indices, it doesn't differentiate between what's a P&L and what's a CapEx, but – hence why we're being transparent and setting out, as well, on the CapEx slide what it – how much is inflation, et cetera, so that you can actually see that.

Anthony Moulder: (Jefferies, Analyst) So, all customers would pay that surcharging for the higher CapEx of pallets?

Nessa O'Sullivan: No. We haven't actually – so, we have it in about 80%. We have a surcharge clause in about 80% of the contracts. Lumber has to go above a certain threshold before you start charging it. So, there's – and so for us, as it comes in there's a timeline before we do that. We try and get surcharge clauses into all of our contracts. It hasn't always been commercially possible to get it into everyone. But I think we've done a good job getting 80% coverage.

Anthony Moulder: (Jefferies, Analyst) Understood, and the – am I thinking about the pricing increases for the US the right way, 2% in the first half, what was it? 5% for the year or maybe 8% for the second half and that's across 25% of the contracts that you've renegotiated, that – to your earlier point, some of them, obviously, are significant increases, but relative to the increases that you were pushing through between FY18 into earlier this year, is it similar kind of quantum? Is it fair to assume a similar level?

Nessa O'Sullivan: I think there's two – first of all, if you remember from FY18, quite rightly, we were doing the repricing, which we said would take roughly three years. We actually, from – so from the first half, you're right, the price was plus 2%, and the volume was plus 5% of the 7%.

In the second half, you did see an escalation in the pricing mix. Part of that is a function of what we're cycling in the prior year. Part of that is a function in the higher cost environment as some of the costs have come up but the level of increase has been a bit higher, reflective of the cost-to-serve to those businesses.

Anthony Moulder: (Jefferies, Analyst) But that's still net of surcharges, isn't it?

Nessa O'Sullivan: It's – this – the pricing that you're seeing in the US, this is pre-surcharges, absolutely. This is the top-line pricing that's negotiated in the contracts.

Anthony Moulder: (Jefferies, Analyst) Yes. Okay. Last question I have is, given that focus on getting pallets out of inventory – out of retailers, distributors, is it now time to renegotiate the Walmart contract?

Graham Chipchase: Wouldn't that be lovely? I think – yes. The other way of looking at it is, I think, because I – many have tried before and failed on that one. I think what we're doing actually is probably more likely to be successful, which is to work with Walmart and collaborate with them to try and start looking at the pinch point and get them to help us solve some of the problems, which I'm sure we'll talk about that more in September, but we have done quite a lot over the last two years, particularly around using data – digitally enabled pallets to work with them.

For example, a small anecdote, I think two or three years ago, there was - most meetings then started off about arguing whose data was correct, ours or theirs? Now they're seeing because of the digitally enabled pallets we've put into their system, they start now saying, okay, we've got one version of the truth, yes, we agree this is now happening in the system, there's leakage here, there's stuff going on there which is not in our contract, we need to fix it. So, they've actually been very supportive in trying to sort things out.

I agree, it would be a nice time to make that change, but again, they are, if not a customer, clearly an advocate, and to go back to them now and say, yes, yes, we don't want you to reuse all these wooden pallets, I think would go down incredibly badly. So, I think our approach is probably more likely to yield results than trying to renegotiate the whole contract.

Anthony Moulder: (Jefferies, Analyst) All right. Understood. Thank you.

Graham Chipchase: Thanks.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr Chipchase for closing remarks.

Graham Chipchase: Thanks very much everyone for dialling in and for all the questions. I guess just to conclude, we're obviously very pleased with this result. I think it's showing the resilience of the business in a – in very, very difficult operating environments and times.

I think to be able to deliver the above mid-single digit revenue growth and a great cash performance, finally give – get some operating leverage on the bottom-line, maintain the ROCI in the high teens and at the same time do all that and achieve some really great recognition and results around sustainability, I think that's a really, really good performance. So, very, very happy to discuss it with you.

Looking forward to the investor day. I know it's – might feel like a long wait before we can talk about FY22, so just brave your indulgence and patience that we wait until then. But we're really excited about what we're going to tell you about in September. So, hopefully you will all be able to dial in and join us. Thanks very much.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

End of Transcript