Event Transcript

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Start of Transcript

Raluca Chiriacescu: A very warm welcome to the second day of Brambles 2021 investor update. My name is Raluca Chiriacescu and I am the Vice President of Investor Relations at Brambles. Today, we will be deep diving into our regional businesses with leaders outlining the growth strategies and how transformation will strengthen the foundations of their businesses to deliver significant value.

We will be kicking things off with a presentation from David Cuenca, the President of our European business, followed by Paola Floris, the President of CHEP Latin America. Laura Nador will update you on the North America and together with Joaquin Gil, our Senior VP of Financial Planning and Analysis, they will take you through the North American plastic pallet update. We will close out today with Phillip Austin, President of CHEP Asia-Pacific and IMETA businesses.

Today's format will be slightly different to yesterday with a Q&A session after each presentation. As a reminder, if you want to change the relative size of the speaker and slide view on the webcast, please use the button at the bottom of your screen.

In line with our usual practice for financial information, the currency is US dollars and growth rates are in constant currency unless otherwise stated. In terms of financial projections, they do not include the impact of potential outcomes from our North America plastic pallet trials and all forward-looking statements are subject to our disclaimer outlined on slide 5 of the presentation materials.

First up we have David Cuenca, President of CHEP Europe. David joined Brambles in 2000 and was appointed President of CHEP Europe in 2020. At Brambles, David has held several leadership roles, including Country General Manager of Central and Southern Europe and President of CHEP Latin America.

David is based in our Madrid office and is joining us from there today. I will hand over to David.

David Cuenca: Thank you Raluca. Hello everyone, I am David Cuenca, President of CHEP Europe. Also, I have worked within the European business for many years. I've just finished my first year as President and I have to say I'm excited to be leading the business at such a challenging moment where we're investing so much in our growth and future strategy, especially with such a fantastic team to take us through this transformation.

I want to share with you how we will be building on this strong performance of the last few years. I will take you through why there are still significant opportunities to grow and how we plan to do this while maintaining our margins and improving our value proposition for our customers.

I will start by giving you a reminder of the scale of our business and network here in Europe. As you can see, we have a substantial business in Europe. Our business employs approximately 3100 people. We deliver to approximately 315,000 locations in our customer supply chains and we serve our customers from approximately 300 service centres across 28 countries.

Our network operations are several times larger than our closest pooling competitor. This level of coverage in terms of geographical reach and penetration of key retail channels is a core part of our value proposition and our scale underpins our competitive advantage.

However, at the overall European level, our market share in full size wooden pallets is still only at 33%. Meaning that there is still headroom to grow within Europe.

The chart on the left outlines where there are opportunities for growth in Europe. Over 50% of the remaining market is composed of whitewood, both in chains and one way. So there is still significant opportunity to convert new customers to pooling.

In fact, in recent years we've seen our growth accelerate in markets such as Central and Western Europe and Italy, which are rapidly maturing from a pooling perspective.

As we expand our retailer coverage in countries like Poland and Italy, and demonstrate the advantages of our model over whitewood, our growth allow us gain scale, increase our network coverage and reduce our cost to serve, unlocking new growth opportunities for us. Much like a snowball effect.

We have also established viable and growing business in the Nordics. In these markets we have a significant scale and first mover advantage over other poolers, limiting their potential for rapid growth. In more mature markets, we are focused on defending and holding back profitable business through targeted and customised approaches for key segments.

Our strength in asset productivity and the management of our network are also an advantage as we are positioned to offer greater certainty to our customers in terms of the end-to-end cost, providing a more predictable and reliable service. Before we talk more about growth, let's review the performance of the business over the last year.

The COVID-19 pandemic has been the most significant issue that our customers had to manage over the last 18 months. During the initial lockdowns, we saw shortages in demand driven by consumer behaviours and significant volatility.

We managed to meet this demand firstly, by putting in place a much more frequent and detailed forecasting and planning process and secondly, by improving our collection capability to ensure that we had sufficient supply.

This investment in operating cost allow us to reduce the financial investment in our pool, otherwise needed to meet these temporary spikes in demand.

We are proud to say that during the first critical year of the pandemic, we did not let any customers down or find ourselves forced to reduce our service levels or prioritise certain customers. Throughout the case of the crisis we reinforced our reputation for resilience and reliability and we believe this enabled us to have better conversations with those customers in our most mature markets about the value we deliver when they needed the most.

The other major external factor was Brexit. This also caused volatility of demand, mostly in the UK as customers and retailers stockpiled products. However, the most significant impact on us has been the UK's departure from the European phytosanitary controls for timber products.

This requires that pallets carrying UK exports needed to be ISPM 15 compliant. We therefore invested in the key treatment facilities, which combined with our external supply has given us the capacity to fulfill our customer needs. We've been able to recover this investment through short charges to customers for receiving heat treated pallets.

The importance of taking these actions at the right time hasn't only been reflected in our customer feedback over this period but has also been reinforced by our success in contract renewals. We have been able to renew and extend large contracts at improved profitability with a number of our top customers.

And we have been able to win back some business from the competition in our Polish market showing that our customers have a renewed appreciation for the value of our service. Our reputational and service success also enabled us to convert longstanding whitewood opportunities, such as with Ferrero.

Looking more broadly across the past few years, our margins have held steady despite periodic spikes in input costs. We've been able to pass on a proportion of costs through the exceptional transport price in Greece in FY19 and through indexation.

We also made continuing investment in automation, durability and transportation to offset costs, which we will speak more about later.

So that's how we performed during the turbulent events of the last 18 months. Now let's look ahead at our projection for our continued robust growth.

As you can see in recent years we've ranged between 3% to 6% growth per annum. My team and I believe that this rate of growth is maintainable in the future. The growth has been driven by pricing with contractual indexation and increases to recover Brexit related costs like-for-like with a strong at home consumption, a net deal business with growth in Central and Eastern Europe.

Looking ahead, we still think that all of these factors will continue to influence our growth. To illustrate this I'd like next to highlight Germany as a case study of how we are continuing to win new businesses.

As I mentioned before, the great work done by the Central and Eastern European team is delivering a healthy new wins growth rate for Europe. And most of its countries are growing high single digits or even more. Germany is part of this region and it's a market where, although we have always had a strong market share in the quarter pallet format, historically our full size pallet business has grown slowly because of the dominance of the EPAL UAC pallet chain system.

However, in recent years, this has started to change with the growth rates rising towards double digit levels and market share increasing to 27% for full size pallets.

We have targeted growth in fast moving sectors using our increasing scale to help us to price more competitively with acceptable returns. We focused on driving cost efficiency as we grew in a scale, especially in relation to plant automation, onsite solutions and when optimising our use of transport.

Finally, we have adopted a more consultative sales approach applied through a new sales team with a new incentive structure to demonstrate to our customers the end to end cost and inconvenience of why they change.

Another area of growth is Automotive. Before I discuss the two exciting strategic opportunities for us in this sector, I want to mention the extraordinary efforts made by our automotive team to secure our business during the pandemic lockdowns.

In 2020 automotive production reduced by 20% in Europe resulting in a 15% reduction on our volumes. But by controlling overheads, instituting flexible working and strong contract renewal the team managed to limit the impact in underlying profit terms while maintaining service levels.

Now let's look at the two major strategic opportunities ahead. The first of these opportunities is the revolution in electric vehicles. The left side of the slide here provides a summary of the degree of change our customers expect to drive in the market.

We are responding by planning to become the living supply chain partner offering a range of best in class packaging solutions, including the capability to transport batteries in containers, which are classed as dangerous goods. Currently nearly 60% of batteries for electric vehicles are manufactured in China. So we will leverage our global presence to target the largest global battery suppliers.

We've also merged our North American and European automotive business to facilitate global collaboration on this opportunity.

The second is strategic opportunity is in creating a digital solution to provide our customers with visibility of their supply chains. We will shortly begin a trial to track a large sample of containers across four supplier network. The objective is to fully digitise the entire FLC pool for Ford, providing them with real time visibility of their supply chain, creating opportunities to improve inventory management, in time delivery and many other benefits.

These are strategic opportunities underlying that we expect automotive to be a strong source of growth and value for Europe.

Now let's turn to a key part of today's session, our strategy and transformation agenda. Our European strategic priorities are focused on improving operational efficiency in the near term while transforming our business and value proposition over the medium term.

Our four priorities are shown here; delivering customer value, asset efficiency and network productivity, driving the digital transformation of the business and business excellence. I'll go into each of these now in more detail.

The first pillar of our European strategy is to achieve and evolve customer value by delivering an incredible customer experience, differentiating our service and leveraging our unique sustainability credentials. We are currently reviewing our customer service processes and structure to provide better support to our customers using improved data and analytics to empower our front office teams so that they can resolve queries in the first instance.

In order to enhance our customer experience, we have implemented improved pricing management systems; interactive invoices, a new customer relationship management systems; Salesforce and an upgrade of the myCHEP service portal. All of this has been done to make it easier for our customers to do business with us.

Service differentiation through innovation is critically important. We are simplifying our customer facing processes, creating new service models and creating additional value. As an example, the introduction of deliberate time notifications will address an area of significant customer frustration.

Finally, over the last few years, sustainability has risen to the top of the agenda, both politically and for a growing number of our customers. Customers are increasingly including sustainability as a key criteria in their purchasing decisions driven in no small part by consumer and investor interest in the impact of their brands are having on the environment.

Coca-Cola European partners is a recent example of how the value we could bring to them by supporting the sustainability of their operations was key to their contract renewal with us. We are supporting a crucial commitment in their ambition to reach net zero by 2040.

As an example of sustainable innovation, we have developed the first pallet made from fully upcycled post-consumer plastic waste. This is the new version of our Wheeled quarter pallet, which we're rolling out in Austria and Benelux markets where our customers and retailers like to deploy moveable promotional displays instore.

We are continuing to evaluate possibilities for increasing our use of recycled plastic in both our fractional pallet range and our containers as part of our design objective to cut out waste. In addition to this, we are continuing to develop and grow for collaborative transport solutions where we look through reduce empty miles by helping our customers share transport loops with CHEP and each other.

In FY21, we estimated we save customers US$4 million of costs and achieved seven tonne reduction in CO2. We are also actively working on additional opportunities to help our customers reduce packaging waste and improve their supply chain efficiency through our zero waste world product.

We will underpin the resilience of our margins in the years ahead by continuing to improve the productivity of our network in three areas. Firstly, we will continue the journey of plant automation. The benefits will include an increase in repair capacity, consistency in the quality of repair and lowering our cost per repair.

Linked with this, we are embarking on the next phase of automation in FY22 which will focus on new technology for a fully automated repair cell. Secondly, we will continue our transport efficiency initiatives through building deep relationships with our transport couriers, having a dedicated export market team to optimise cost in this area.

And also on transport collaboration that helps to elevate us as a strategic partner to our customers while we have to reduce empty truck loads that enabled both our customers and us to achieve cost reduction and important environmental benefits.

Lastly, agile networks are about adding onsite operations and manufacturer at all retailers locations. This improves the agility of our network and allow us to avoid wasting the supply chain of those locations as we no longer need to transport pallets that are perfectly fit for use back to a service centre before being reissued to the field.

All of these initiatives are focused on improving the efficiency of our network, reducing costs and supporting our margins and returns.

Turning to the next slide, I'll take you through the second important element in maintaining our ROCI in the years ahead. A critical part of our business model come from the way we manage the pool from a capital efficiency point of view. We have made strong progress in improving asset efficiency but there is a still a great opportunity to be more productive, which will finally underpin further improvements in cashflow and ROCI outcomes.

We will approach these through a massive productivity ecosystem that will take advantage of new capabilities in data analytics and digitisation, such as proactively monitoring customer account health and proactively addressing potential point of loss.

We will be using more advanced forecasting tools to improve the accuracy and optimise the frequency of our pallet collections. [Inaudible] we are reviewing the terms and conditions of our customers' contracts and introducing a new commercial framework for retailers to ensure that we set up win-win situations, where the behaviour of all participants in the pool is aligned towards greater asset control and reduce loss.

And finally, we are continually improving the design of our measure pallet products to ensure that we have a more durable asset that is easier to repair at a lower overall cost, while maintaining quality standards.

Moving on now to a key part of our strategy, our transformation enabled by digital. Brambles has ambitions and plans to transform our business through digital, making our operations better for Brambles and better for our customers.

We'd like to share some examples about how we are making those plan a reality here in Europe. In Ireland, we have already deployed 5000 small pallets with autonomous tracking devices. This is to identify sources of pallet loss and to address the misuse of our pallets.

We injected these smart pallets into a previously invisible part of our supply chain where we have a known problem in asset productivity. The timely and irrefutable data that we obtained helped us to create a new service offer for the Irish market resulting in a material increase of US$3 million of additional value.

We identified five sources of misuse or loss. These were 12 pallet dealer locations we were not previously aware of, participating pallet dealers selling CHEP pallets retrieved from our retailers network, manufacturing locations that were not CHEP customers but were receiving CHEP pallets, CHEP customers receiving our pallets and not paying for them and finally, LSPs collecting CHEP pallets from a retailer's network and reusing them.

This allow us to collect thousands of additional pallets as well as convert manufacturers and LSPs into paying customers and stop or unauthorised flows.

Let's now move to the project we are embarking in Northern Europe, what we call continuous field diagnostics. We have deployed 25,000 smart pallets so far and will deploy up to 100,000 in FY22. These smart pallets when coupled with our assistant rich data and data analytics can give us new insights.

These insights will enable our people to further understand our network, preventing asset losses and misuse. It will also help us understand our cost to serve by customer and segments and therefore enable new pricing models. Excitingly, we are engaging with five FMCG customers to validate that these capabilities can also improve the efficiency and agility of their supply chains to create new value for all our customers.

Let's take a look at how we are driving excellence through our business firstly by investing in our people as it is their capabilities and their engagement that truly underpin the success of our transformation agenda.

Throughout the pandemic our office and plant colleagues had different work experiences. But our people survey confirmed that both groups felt well supported by the organisation throughout this time, which ensure the continuity of service to our customers. This was facilitated by our wellbeing initiatives, which provided our people with the support they needed to manage the uncertainty and change brought by the pandemic.

To ensure we are developing our people at all levels and that we have the right skills in our workforce we have a number of different approaches, including our newly launched Academy, our talent programs and our mentoring programs that are including supporting women in our business with moving into management roles.

We are passionate about making our business an inclusive and diverse environment to work in. Our progress in all these areas is measured internally through our employee survey and clear and transparent metrics, but also externally with partnerships such as the top employee recognition, which help to bring into our Company new knowledge and best practice to make us an amazing place to work.

As well as investing in our people, business excellence is about improving organisational effectiveness, in particular using data analytics to remove or automate manual processes in administration and improve our capabilities in forecasting and planning.

So in summary CHEP Europe is well-placed to build on its successes and to continue to create shareholder value through significant opportunities to grow, maintaining our margins with continuous focus on productivity and transforming our value proposition through customer focus and digital.

We are working from a position of strength with a robust FY21 result across all financial metrics, which demonstrated the resilience of our business. While the operating environment remains challenging we are well-placed to offset this through pricing and productivity actions, which we have a strong history of delivering.

We have growth opportunities through a number of avenues close to the core, particularly in Central and Eastern Europe, Southern Europe and with our automotive business.

Our transformation agenda provides us with an exciting opportunity to use digital technology to create and evolve value for our customers and our shareholders. And finally, our unrelenting focus on network productivity, asset efficiency and business excellence will underpin our marketing and ROCI performance over the short and medium term. Thank you. I will now hand over to the operator for Q&A.

Operator: Thank you. 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 speaker phone, please pick up the handset to ask your question. Raluca?

Raluca Chiriacescu: Hello. The first question is from Matt Ryan. Pease go ahead, Matt.

Matt Ryan: Thank you. I've just got a question for David on the competitive environment with LPR and pooling partners and I guess just looking through markets like Germany where it looks like pooling is really taking share from EPAL. Is that the sort of market where all of the poolers are winning at the moment or are you seeing I guess some sort of competitive tension amongst the three that are mentioned?

David Cuenca: I mean, that's a really good question. I think our competitors are more aggressively targeting our South or European and UK markets. Also, they are trying also to enter in Central Eastern Europe. So yes, there are some activities there, but we can see the highest level of energy happening in Southern Europe and UK.

In Central Eastern Europe, I think we have the first mover advantage and our recent growth rates what it's doing is giving us scale and network efficiency. So yes, there are some activities. I think we are well positioned to keep growing these markets.

Matt Ryan: Thank you and just a couple of markets that have been mentioned in previous years were the Nordics and Russia, as potentially high growth markets being largely unserved. Can you just comment on those markets and where you're sitting at the moment?

David Cuenca: Yes, I mean we keep growing in Nordics. We started, let's say growing at a good base three years ago, more or less and we're growing at mid-tens more or less, especially in the main country that is Sweden. Then in Russia we see slow but steady progress in this market entry.

The fact is that Russia, as you know is a badly fragmented market. So what we're trying to do is establish the right relationship with our retailers to ensure that we achieve the asset control that is going to be critical in this market.

Matt Ryan: Thank you.

Raluca Chiriacescu: The next question is from Owen Birrell at RBC. Please go ahead Owen.

Owen Birrell: (RBC, Analyst) Yes, thanks David, look, I've got a couple of questions. The first one I just wanted to touch on the automotive business and I'm just wondering how you're seeing the underlying market at the moment. Have you seen volumes return to pre-COVID levels or where are we at relative to where that business was operating pre COVID?

David Cuenca: There are two movements affecting the automotive industry. So the first was COVID and what we've seen after the lockdowns were easing a little bit is that it was a high consumer demand that was driving volumes back higher than we expected and that had a positive impact in our numbers.

Now, the second let's say crisis is the semiconductor shortage that is impacting the whole industry and we don't see the situation stabilising in the next six months. What's happening right now with this situation and in regards to the impact on our business is that on one side the manufacturers are holding a high level of stocks.

So we are getting some revenue from there, but also as there is lower activity in this market, our cost structure is going down. So all in all we are mitigating the impact of this crisis and the numbers are looking good.

Owen Birrell: (RBC, Analyst) Okay, that's excellent. And can I ask just a second question, just you mentioned the increased tagging of pallets within Ireland and that had identified a significant amount of unauthorised usage of pallets. And I'm just wondering what learnings and changes are you making to that business as a result of that?

Are you changing your - I think you mentioned you were changing your contractual terms to change the behaviours. I just wondered if you could give us some examples of what you're doing to minimise that unauthorised usage?

David Cuenca: Yes, that's a great question. We knew in the past that our business model in Ireland was something that we should improve. But the fact that we included this technology allow us to clearly understand the market, clearly understand what was happening and demonstrate to our customers, what was the situation.

So as a consequence, as Helen was saying it yesterday, we radically changed our business model in Ireland, we change our contracts and now the contracts are better reflecting the cost to serve these markets and the efficiencies or inefficiencies that are happening there. So technology, it was critical to turn around the business in Ireland.

Owen Birrell: (RBC, Analyst) And can I ask when you detect these unauthorised uses of pallets, is there a - are you able to identify who is responsible for those leaks and have you embedded into contracts penalties for that leakage?

David Cuenca: Actually, they are different situations when you identify unauthorised flows, depending on if there is a contract signed or not. But the solution is always the same; we need to stop the unauthorised flow. So yes, sometimes will mean that we'll need to apply penalties.

Most of the time we need to address these flows to stop happening or to converting these non-paying customers to paying customers and then including them in the normal pool.

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

Raluca Chiriacescu: The next question is from Paul Butler at Credit Suisse. Go ahead, Paul.

Paul Butler: (Credit Suisse, Analyst) Hi, David. I just wanted to ask a bit more about the trial - sorry, now the trial but the targeted field diagnostics in Ireland. Are you able to quantify what the cost of doing that was and also what is the benefits, the financial benefit that you expect to get from the changes that you've made?

David Cuenca: Sorry, all these kinds of tests that we're doing are let's say tests to understand exactly this. So what is the level of investment that we'll need to put in the market to eliminate somehow the market. So starting from the very beginning, what we did in Ireland, it's clear that the output that it was transforming our business model, having an uplift in revenue is paying more than 10x or more the investment.

So the critical point here is to decide how many pallets you need to attack to eliminate the market. And what we are doing is exactly this. So I think it's too early now to identify cost benefit because we are fine tuning it in order to have a final solution to export to other markets.

Paul Butler: (Credit Suisse, Analyst) Okay. What other - I think you are also looking at the Nordics to use this approach, but what other markets could potentially benefit from this type of targeted approach?

David Cuenca: Well, as Helen was saying yesterday, we are going to run this pilot in UK and Canada and then with the final conclusions on it, we will allow the markets based on three or four main priorities, one of which could be also asset control, but the main pilots are going to happen in UK and Canada.

Paul Butler: (Credit Suisse) Okay and you've mentioned in the automotive business that you digitised all of the containers you use for Ford. Is there a revenue opportunity there where you're getting paid by Ford for providing the tracking data of the containers there?

David Cuenca: Well, actually, as we speak, we are defining the value proposition, but it's clear that there is a pain point on the automotive supply chain. There is a lack of visibility of some specific flows that is not allowing them to fully understand the cycle time and other parts of the supply chain. So clearly this is a potential opportunity to offer differential value to our customer ad of course, converting to revenue.

Paul Butler: (Credit Suisse, Analyst) Do you have a sense of what that revenue opportunity could be; order of magnitude percentage of what the revenue that you get from providing the containers for the customer?

David Cuenca: I think it's too early now to speak about the size of the opportunity. Clearly we are betting for it. So we think there is a nice amount of revenue there, but also there is a nice amount of customer engagement and satisfaction and a number of pain points that we can solve for them. So it's too early now to identify the size of the opportunity.

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

Raluca Chiriacescu: The next question is from Jake Cakarnis from Jarden. Please go ahead Jake.

Jakob Cakarnis: (Jarden, Analyst) Hi David, thanks for the question. My first one is just on slide 9, where you've given us the breakdown of the contributions to revenue growth. I just wanted to focus on pricing. It seems as though it's got the largest spread.

Can you maybe give us some examples of markets or conditions where you'd see 0.5% price growth in some of the markets and conditions where you might see 2% please?

David Cuenca: I mean, that would depend very much on the external conditions, like the inflation. So that's why we included a guidance of the contribution to growth that is going to mean pricing but in Europe, there's a diversity of different situations in terms of the inflation. So we don't have now a list, but we expect that there are some countries that are going to have high inflation in the near term, in the next month and that is going to be moderating over the time.

Jakob Cakarnis: (Jarden, Analyst) Okay, thanks for that. And then you mentioned that there was some new commercial frameworks that you introduced through the region. Can I just understand how client acceptance has been of that and why you're doing it now when I think customers and yourselves are acknowledging that industry conditions are really stretched?

David Cuenca: May I ask just a clarification? What do you mean by commercial framework?

Jakob Cakarnis: (Jarden, Analyst) You mentioned in your speech that you're focused on a new commercial framework around asset control and reducing loss.

David Cuenca: Okay. Now I've got it. Yes, well, what you're doing is understanding if the carrying customer contracts are reflecting, first of all the real cost to serve. But second, if they are allowing us to pass on the potential inefficiencies, such as losses.

So we went to be sure that every single player in the supply chain is paying for the use of our assets and this is including caring about them.

The second piece of these strategies; retailer approach, where we want to partner with the retailers, first of all to avoid the misuse or the use of our assets without paying for them but second, preventing losses. So it's having a dual approach with manufacturers it’s contract allowance. With the retailers, it is working together with them to increase the productivity of the supply chain.

Jakob Cakarnis: (Jarden, Analyst) Okay and then, was there any particular reason why this was introduced now, just given what's happening with supply chains across the continent?

David Cuenca: I mean, I think the world is changing, the uncertainty that COVID, Brexit and so introduced into the market.

Raluca Chiriacescu: We have a…

Unidentified Male: We’ve lost him.

Raluca Chiriacescu: We’ve lost connection. Hello, David, can you hear us? No, I think we we've lost the connection. We do have two minutes until the next session. David will be around at the end of the event for Q&A so we can - I think he has come back. David, can you hear us?

David Cuenca: Yes, can you hear me?

Raluca Chiriacescu: Yes, we can hear you.

David Cuenca: Yes, I don't know what happened.

Raluca Chiriacescu: Yes, there was a misconnection. We'll move on to the next question from Cameron McDonald. Please go ahead Cam.

Cameron McDonald: (Evans and Partners, Analyst) Good evening and thanks David. Just a couple of questions on slide 9 I think it is with the market opportunity that you're highlighting. Is there any opportunity in the Eastern Adriatic states there that you seem to be surrounding?

That's my first question and then the second question is you mentioned to an earlier question about the opportunity in Russia and you said that you're doing a slow entry. My understanding was that there are significant sanctions against Australian companies investing in transport energy and other industries within Russia given - and Crimea given the sanctions around MH17. Are you suggesting that Brambles is not impacted by those sanctions?

David Cuenca: Yes, might I start with the final part of the question that is Russia and I guess we know and we have some discussions with our customers that they are increasing the level of intensity in Russia. Fact is that if we don’t establish the proper rules in the market, this is not going to be a sustainable business.

So what we want to avoid is growing quickly at the beginning, and then caring about our assets. What we are doing right now is a very conscious approach to establish the relationship, the right one with the retailer and then putting in place the asset control mechanism to make the business sustainable.

Then if I recap it well, the first part of your question was about Eastern Europe, correct?

Cameron McDonald: (Evans and Partners, Analyst) Yes, it was more about the Eastern Adriatic states of Croatia and Bosnia, those regions that you don't seem to have any presence in at the moment but are surrounding.

David Cuenca: Yes, we have these markets open for our customers in terms of delivering pallets there and then collecting. The commercial activity it's been, no, let's say low in the last years, but we expect that it’s going to be increasing in the next years.

So all these countries are part of our target. Also we are including in our growth commitments the growth in other countries where we have more a dynamic of growth in the last years.

Cameron McDonald: (Evans and Partners, Analyst) Okay, great. Thank you and another question just on…

Graham Chipchase: Cameron, just on this sanctions point, can I just add to David's response, we have a very robust process to look at customers and we take on new business, both of new customers or new territories to check that they're not on any of the sanctions list.

It's not just an Australian one. I want to be clear. There are US ones as well. And I think the other thing that should give you some comfort in Russia is the majority of our customers are actually international FMCGs. Yes, the risk there is very low, but as far as we're aware and we have very robust checks, there are no sanctions issues for what we're doing in Russia. Thanks I just wanted to add that to the response. Sorry [unclear].

Cameron McDonald: (Evans and Partners, Analyst) Thanks mate. Just finally with the revenue growth that you've highlighted of up to 6% and then the productivity gains et cetera, asset efficiencies as part of the strategy that you've outlined, on slide 14, you refer to the sustainability of margins rather than margin growth or margin expansion.

The margins that EMEA delivered in ’21 are still down on what you previously have delivered even two years ago pre-COVID, what's stopping you from being more aggressive in the statement around margins?

David Cuenca: I mean, first of all, we are in a very competitive market, so we need to be vigilant about the activity for our competitors. Second yes, we are going have a clear strategy that is based on growth and cost leadership. Both are going to improve our margins and our ROCI but also we are going to invest in our future.

And that's why we need to be very cautious, because we need to offer different value to our customers that is going to come from the investments that we are doing right now. So that's the reason why I think that the Company managed to underpin our ROCI and margins over the medium and long-term.

Cameron McDonald: (Evans and Partners, Analyst) Thank you.

Raluca Chiriacescu: And the final question before we move on is from Sam Seow at Citi. Go ahead, Sam.

Sam Seow: (Citi, Analyst) Hi. Thanks guys. Just quickly thinking on Ireland, can you give us a percentage or a measurement of how much misuse was happening and an idea of how reflective do you think that is of the larger European region?

David Cuenca: I mean, first of all I don't think we can extrapolate what is happening in Ireland to the rest of the European countries. What we did in Ireland is specific trial in a specific supply chain of one of the players in the market. And it showed that it was happening everything at the same time.

So it was not just misuse, but it was players receiving pallets and using them when they were not allowed. So it was a specific test. It was in a market where we have or we had a specific business model that we wanted to change. I don’t think we can extrapolate what happened in Ireland in terms of the numbers.

What we can do is extrapolate that eliminating that small piece of the supply chain. You can have an overall visibility about the whole market.

Sam Seow: (Citi, Analyst) Great and then that 5000 tagged pallets, what of percentage of Ireland’s pallets was that roughly? Just to confirm, did you say in an answer to a previous question that the initial return is 10x the money you spent, or did I mishear that?

David Cuenca: I mean, the percentage of pallets that we were toggling in Ireland was small. As Helen said yesterday we try to [go] around1% or less of the total volume in terms of the market. And as I said before, it is a little bit early now to understand what's going to be the investment and the benefits of this kind of market actions.

Sam Seow: Okay, thanks.

Raluca Chiriacescu: The next speaker is Paola Flores, President of CHEP Latin America. Paola joined Brambles in 2001 and was appointed President of CHEP Latin America in July 2020. During her time at Brambles, Paola has held several leadership roles, including Country General Manager of Italy and Canada.

Paola is based in our Mexico office but will be joining us from Milan today. I will now hand over to Paola.

Paola Flores: Thanks Raluca. Good morning, good afternoon and good evening everybody. My name is Paola Flores, President of CHEP Latin America. As this is the first time we are presenting the Latin American business I would like to stay with a short overview of the region, followed by our strategy.

This will give a clear view on how we are currently positioned and how we are going to protect our business and to grow CHEP Latin America, continuing to generate profit and cash and drive value for our customers and for Brambles.

So let's start with a high level overview of the Latin American region. CHEP is present in 11 countries in Latin America, comprising the largest, most populated countries in the region. These countries represent the most developed markets in terms of penetration of modern trade infrastructure and presence of the vast majority of global consumer goods companies.

With a revenue of over US$350 million, more than 100 service centres and about 700 people, we generate 7% of the total Brambles business. We have a strong, mature presence with leadership positions in Mexico and in Chile. We entered these countries in the early ‘90s and they generate the majority of our revenue.

We entered Central America about 10 years ago and serve customers in Guatemala, Costa Rica, El Salvador, Honduras and Nicaragua. This area is still small but profitable and is developing at a fast pace as the market evolves its supply chain and increases export into North America.

We entered Brazil and Argentina at the end of the '90s and together with Central America, they represent about one third of our business. More recently, we entered Columbia and Peru where we are creating the pooling market, establishing our network and growing the business.

So let's review the market position in Latin America. We are the leading pallet pooler in the region and in every single market in which we operate. Looking at the bar chart on the left of this slide, it's clear that Mexico and Chile we hold leading positions with 70% and over 60% of market share respectively.

Our strategy here is mainly to protect our business through a better customer experience, as well as continue to grow market share and improve the margins. Our presence in our other main markets reflect approximately 25% in Brazil and close to 20% in Argentina and Central America.

In our new countries, Colombia and Peru, our share is still lower than 10% at the moment, but rapidly growing. As you can see in the chart at the overall Latin American level, our market share is 35% and our pooling competitor accounts for 6% of the market, meaning that there is still significant opportunity to grow within the region where the remainder of the market is whitewood, [both exchange] and one way.

I will return to growth strategy in a moment but first I would like to review the performance of the business over the last few years and the key initiatives we have undertaken to establish strong foundations for our future growth.

If I can draw your attention to the right of this slide, we can see that despite the economic impact of the pandemic and inflationary pressures we achieved considerable revenue growth year-over-year. Looking at the chart below, if we exclude the lumber inflation last year, we have consistently improved asset efficiency, reflecting the benefits of our asset management program with the US$70 million improvement in fiscal '21 in cashflow versus fiscal '18 levels.

Our region has gone from being a user of cash to a generator of cash. So what has driven these results for us? Well, this has been possible thanks to several initiatives across the region and in particular, acting on pricing while improving the service to our customers, implementing a comprehensive asset management program, which has become best practice for Brambles as a whole with key initiatives developing Latin America now being implemented across other regions.

And finally, our focus constantly reducing the cost to serve through supply chain efficiencies and automation. Now that we have looked at our performance, let us draw our attention to the four key value drivers for our strategy.

Our strategy in Latin America is focused on improving the customer experience while delivering both asset and cost efficiencies across our operations to drive sustainable growth and cashflow generation in the region. In line with the strategic priorities outlined in this slide, we are focused on enhancing our customer value proposition to support our growth ambitions in the region.

We are committed to strengthening our asset management and efficiency while continuing to invest in the network productivity, including service centre automation. One of the most significant ways we are generating asset efficiency is through our third pillar here; digital and data analytics and we are working hard to drive business excellence initiatives as we develop and empower our people who are the heart of our business.

Let us work through a few of these value drivers in more depth and let's start with customer value. As you can see on the left of this slide, our sales performance in the last year is characterised by solid double digit growth. To continue this trend in the next years, our focus on customer value is key. And what generates benefits for our customers is how we improve and simplify our business relationship with them as well as collaborating with them to generate cost savings.

That is why we are implementing a new commercial team of supply chain experts who work closely with our customers to generate value while working on new growth opportunities. It's also why we have improved some of our processes, in particular, those related to physical audit and declaration audits, which we expect will simplify the relationship with our clients.

Transport collaboration aiming at reduced miles and cost while delivering sustainability benefits for the entire supply chain are a key value driver for our business and for our customers. All this, while we continue to improve the ease of doing business with us, working on customers, onboarding as well as launching a new offer for smaller customers.

Customer value initiatives underpin our growth strategy, allowing us to deliver double digit growth as we've purchased strategic expansion opportunities in Brazil, export, lost mile solutions, which I will now address in more detail in the next few slides.

So let's talk about Brazil for a moment, which is our biggest opportunity for growth. Brazil is our largest country in Latin America in terms of population and geography and accounts for 15% of the total region of revenue. The competition is predominantly whitewood pallet with an emerging pooling competitor.

The market is characterised by a developed modern trade with a large geography to cover and with the solid presence of local and global fast moving and consumer goods companies. As you see on the chart on the left side of the page, our market share in Brazil is currently 24% and we expect to double our market share by fiscal ‘25.

What has driven this growth rate and how do we know it will continue driving it for us? Well, it's due to our strong value proposition based on the quality of our equipment, the scale of our network, the commercial teams we have put in place and the strong sustainability benefits that our share and reuse model provides.

We aim to target new and existing global and local customers in specific high volume and higher rotation categories. For example, beverages. We also see opportunities with home and personal care companies which had a strong increase in volume during the last 18 months due to the pandemic.

As we expand in Brazil, we will be implementing our best practice asset management processes and controls to ensure we are creating shareholder value through profitable growth in the years to come.

So let's move to our second strategic growth opportunity now; increasing export volume from Latin America to the rest of the world. We accelerated this opportunity in fiscal ‘21 helped by the growing demand for fresh produce mainly from North America, originating both from Mexico and Central America.

Thanks to the network we have developed, the category skills of the team and the product quality we have an unbeatable competitive advantage. This will allow us to keep pace and momentum and increase the volume to North America this year and next year, while we investigate new categories as well as new geography like Europe and Asia, to continue to grow with experts in the years to come.

Today, our export business accounts for 20% of the Latin American revenues and through this strategy by fiscal ‘25, we expect to increase the size by 30%.

So how do we continue then to generate value to our existing customers? We are going to do it through innovation specifically through last mile solutions. CHEP last mile solutions, which are well-established in Europe and the Asia Pacific region are not yet present in our portfolio in Latin America, but we have calculated a potential of about 7 million issues between replenishment and promotion solutions.

Manufacturers and retailers in Latin America have been making significant investments in point of sale displays for optimal merchandising. Manufacturers are looking for innovative solutions to increase visibility and space in store. While retailers are seeking touchless solutions to decrease replenishment cost and comply more easily with the health and safety requirements coming from COVID-19.

Our plan is to test the pilot in Brazil in fiscal '22 and roll it out in the next few years in Brazil, then Chile, followed by Mexico.

Now that I have addressed our growth strategy, I will turn to the actions we are taking to leverage the strong foundations for profitable growth we have built in the region and deliver further efficiencies across operations.

One of the most important drivers for us after productivity, thanks to the asset management ecosystem, which you see on the left-hand side of the chart, we have significantly increased asset recovery rates while achieving a deeper understanding of the market flows, which in turn allows us for specific actions to address inefficiencies through the supply chain.

The ecosystem leverages data analytics capabilities developed in Latin America, new advanced analytics techniques and digital asset capabilities to transform how we control our assets. From a digital and data analytics perspective we are using a combination of digitised assets, geolocation and machine learning techniques to identify leakage points and new recyclers, as well as detecting customer declaration anomalies and notarised reuse of our assets in the supply chain.

We read and interpret the trends from this date which allows us to accelerate the collection of our pallets from the supply chain and ensure that our pricing aligns with the cost to serve and that we have the sites we need to enforce our legal title over our assets where appropriate.

Asset quality is a critical component of the ecosystem. It's important that we increase the durability of our pallets, which is why we are investing in a number of initiatives to improve the damage rate of our pallets including the use of clinch nails and nail plates.

The continuous focus on asset productivity will underpin margins, returns and cashflow generation across Latin America.

Let's transition now to our next example; network productivity where I will highlight how our supply chain is contributing to the overall strategy to increase growth, reduce cost to serve and generate value.

Fundamental in our strategy has been the increasing automation across our service centre network in Latin America. A highlight of this strategy has been the automation of our plant in San Martin Obispo, which was completed in fiscal '21 without any delay or any extra cost, despite the challenges of the pandemic.

More information will come from this video; at CHEP we keep growing and modernising. We are very proud of our new plant at San Martin Obispo in Mexico City. Thanks to the investment of millions of dollars, we now have an 18,000 square metre unified plant. This will help us increase our capacity, standardise processes and improve our operator's safety and ergonomics.

The new plant in San Martin Obispo consolidates two facilities into one to be more efficient and more innovative. This new Mexican plant is automated with the state of the art technology which CHEP uses around the world. It has a unique water treatment plant which will allow us to save more than 1700 cubic litres of water annually. This is equivalent to the daily consumption of 10,000 people with no water wasted down the drain.

Given its strategic location, this plant supports our main trading partners to make their supply chains more efficient. That is why the new plant was planned to support growth in the years ahead. This is CHEP's biggest plant worldwide with a processing capacity of 11.4 million pallets annually.

It also provides us with the knowledge to replicate such an important construction project in other cities in Latin America and highlighted the collaborative work among different business areas and trading partners. We are so proud of this new operation that will enable us to do more for our business, our community and our planet.

The consolidation of this facility has increased capacity by 10%, while increase automation through the installation of an Aqua Klippa for repairs and automatic inspection machine has increased the efficiency, quality and consistency of pallet repairs.

We have also reduced our labour costs by 18% and increased our heat treatment capacity by 35%. San Martin Obispo is also the site of Brambles very first water recycling system that reuses wastewater from our Aqua Klippa, thus ensuring zero wastewater. It's a system we are very proud of.

As you can see, the automation journey in Latin America is well underway and it's already delivering employee, customer, shareholders and sustainability benefits.

So, what can you expect from us going forward? Looking ahead, we see two key areas of actions. First, we will continue the automation journey to reduce reliance on labour and deliver consistency and standardisation to support the growth in the region.

In scope, we have the automation of about 10 plants, including three plants in Brazil to sustain growth. Second, we will continue to optimise transport costs, while we further improve fail rate through our dedicated fleet and [unclear] in long collections thanks to collaboration with retailers.

To summarise, what have we achieved so far in the Latin American region? Well, we have delivered a solid performance in our transformation path in the past two years despite the global challenges generated by the pandemic, the lumber and transport scarcity and the inflationary pressure.

We have achieved consistent revenue growth with volume increases and effective implementation of pricing policies covering higher costs to serve due to asset recollection and relocations to service customers. In parallel, we put in place controls and new processes for asset recovery and asset loss prevention enabled by digital as well as supply chain initiatives to reduce our costs and further automate our operations.

This has allowed us to reach historic levels of cost generations. Going forward, thanks to our strategy, the Latin American business and organisation are strong and well placed to continue high double digit revenue growth with improved profitability and ongoing cashflow generation.

Thank you for your attention and I hope you are as excited as we are about the future of our Latin American region. I will now hand over to the operator for Q&A. Thank you.

Operator: Thank you. We will now to Raluca for questions.

Raluca Chiriacescu: The first question is from Scott Ryall at Rimor Equity. Go ahead Scott.

Scott Ryall: (Rimor Equity, Analyst) Hi, thanks very much Paola. Thank you for the presentation. I just wanted to pick up on your two major growth initiatives on slide 26 and 27 please. Firstly on Brazil, on slide 21 I think it was, you highlighted that you have been in the market for a little over 20 years now. Only five years or so behind the two mature markets; Mexico and Chile.

I wonder if you could just tell us why is the market penetration in Brazil so far behind those two markets when CHEP has been in the market for almost as long and what is it that makes you believe that you're at an inflection point, because to double your market share means very rapid growth versus the - I would say - over time not so rapid growth that's come from Brazil over 20 years.

Could you just give us a sense of why you think you've hit this point of inflection now? What is it - and I mean what's going to drive the conversion in such a rapid way from whitewood? Have you got to a point where you think you're massively more price competitive or there's massive whitewood shortages or something like that? I'm interested to hear, thanks.

Paola Flores: Thank you for the questions. Yes, so we have focused our attention in the past decade to growing Mexico and growing Chile. In the last few years into improving the business, turning around the businesses, keeping and improving control of the business. We think we can now focus on Brazil, on the growth of Brazil which represents for us the biggest country in the region. But also represents for us an opportunity for growth now that we know how to grow profitably and under control.

So in the past few years as you know, we have focused in improving our assets efficiently and asset control and we want to start with the growth in Brazil, with doubling the growth in Brazil in a controlled way, applying the learnings that we have in the last few years there.

Also, we have now a stronger commercial team. We have revised the commercial structure and we can rely on a commercial structure, a commercial team that is stronger, it's skilled and can really look for new growth opportunities, not only in the fast moving and consumer goods companies that we have penetrated at the beginning but also at the local company and the territories. So these are the main reasons for us to go now.

Scott Ryall: (Rimor Equity, Analyst) Okay and then the second question is with respect to slide 27, your export opportunity from Central America, I guess Mexico mostly into North America. You've highlighted the fresh produce market in particular. Do you believe this is a harder market to access without the IFCO business, which I would imagine would have been perfect for this.

I remember how difficult it was for the IFCO business to execute on cross-border flows from Mexico and Central America. So I wonder why this is going to be different in the case of pallets please?

Paola Flores: Yes, so we have focused recently more in the export business because it represents for us an opportunity for growth in particular in the moment when the pandemic has hit our region so heavily. Export has proven to be resilient. So we have focused our attention there. Again, our commercial focus has been there in Mexico and in Central America in particular.

So we have found that the fresh market, the right market were to grow rapidly and we did it in the last fiscal and we are continuing in this fiscal and we will go on because they find our reliability of pallets, so the fact that we are reliable, our ability and our quality has the best components for their exports.

So it's something that has really come as an opportunity in the last 18 months I'd say to grow faster this business.

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

Graham Chipchase: One thing I'd also add is that you've got - with IFCO, invariably the crate has come back and be cleaned before it went out again from a grower to a retailer. Whereas the benefit of this is it's almost a one way journey out of Latin America into the US where we then use it for something else. I think that's the fundamental difference between the two models.

Nessa O'Sullivan: Yes and I think it's also worth noting then that the pallets that go from Latin America into the US then provide the US business with a lower cost pallet than they would otherwise have. So bringing pallets under load is a great way for us also to provide pallets into the US business which is another knock on benefit for that.

So this has been something Paola and the team have unlocked opportunity there and we see further potential in it.

Scott Ryall: (Rimor Equity, Analyst) Sorry, so you're bringing - these are new pallets you're bringing in from Central America to North America. I must have missed that bit. So these are new pallets that are coming in?

Nessa O'Sullivan: It's just a bit of arbitrage between the markets the pallets in Latin America are cheaper than the pallets we buy in the US. So there's opportunity. They're the same spec pallets. So one of the things with all of the regions now having similar specs to North America and Americas region that there is some efficiencies with that flow that provide us with a knock on benefit.

Scott Ryall: (Rimor Equity, Analyst) Yes, no, so these are - you're sourcing new pallets in those markets and then you're effectively using them on their first trip to come in and then you'll redeploy them in the US market. So they won't necessarily have to make the return journey back to Latin America in order to get the fresh…

Nessa O'Sullivan: So Scott, it wouldn't really matter if they were a new pallet or whether it was one from the existing system. Either way it's a pallet that comes into that total Americas region. But you're right. It doesn't have to come back. It can be used then within the US network.

So we don't necessarily source just new pallets to go in there. It's the pallets that go through there but it supplements the US pool and they get a mixture of a blended mixture of newer pallets and some older pallets. But net a cheaper pallet supplying the US pool as well.

Scott Ryall: (Rimor Equity, Analyst) Right okay, thank you. That's all I had.

Raluca Chiriacescu: Great. The next question is from Jake Cakarnis from Jarden. Go ahead Jake.

Jakob Cakarnis: (Jarden, Analyst) Hi Paola. I just wanted to understand some of the learnings that you got from some of the asset control issues in Mexico. I think it was in FY20 and how that's going to be relevant to other markets if you look to expand through Latin America?

Paola Floris: Yes, so how Helen was also telling us yesterday, we are using new technologies to have more insight for us and for our asset protection force. In particular, we have used [unclear] and these have created a greater improvement in our collections because we have avoided failures in terms of timing, in terms of quantity.

So [unclear] is one. The other one is machine learning and geolocation. Geolocation is one particular and is still but was particularly important for us to mark for the territory and understand where the pallets are - where - not particularly but in retailers, so that our asset forces could visit and target the collections.

This was based on technology and this was for sure one of the biggest opportunities. Another one which is still in progress is to have small [unclear] digitised going out through some supply chains that we want to monitor. In order to understand the behaviour.

So as David was saying before, as well we are doing small tests in order to understand the reuses, unauthorised reuses and the catch point. These are the two main insights that we are getting from these tests that are improving of course our collections.

Jakob Cakarnis: (Jarden, Analyst) And then relative for your benefits you just outlined from technology, how important has been pricing the customer risk correctly?

Paola Floris: So I don't know if I understood the question correctly but you are saying how our technology was critical for our relationship with the customer?

Jakob Cakarnis: (Jarden, Analyst) Just sorry, how changes to pricing for different customers is helping with asset control as well please.

Paola Floris: Yes, so no it is critical as well because we can understand as I was saying, the correct flow of our pallets and in this case, we can adapt, adjust to the pricing according to the recycle time and the real destination point. So the real destination profile.

It's critical because we can talk with our customers about what we see in the supply chain through the digitised assets and having pricing conversation accordingly.

Jakob Cakarnis: (Jarden, Analyst) Thank you.

Raluca Chiriacescu: We have time for one more question and that's from Cameron McDonald at Evans and Partners. Go ahead Cam.

Cameron McDonald: (Evans and Partners, Analyst) Thank you. Hi Paola. Just one question from me; you've said on Brazil on slide 26 accounts for 15% of Latin American revenues. Yet on slide 22, it looks as though Brazil has 25% of the Latin American pallets. Can you just explain what that disconnect is or why there is that disconnect please?

Paola Floris: So Brazil comprises 15% of the revenue, of the Latin American revenue, but we have 24% of market share in the market. So of what you see on the slide that you were referring to is the market share. We want to double the market share [unclear].

Cameron McDonald: (Shaw and Partners, Analyst) Sorry, so when I calculate that out, it looks as though you've got 18 million pallets in Brazil and in Latin America you've got about 72 million pallets. And so Brazil looks as though it's got 25% of your pallets that you've got in Latin America.

Nessa O'Sullivan: Sorry, it's just worth making a point though that Paola has called that out to clarify that because the market pallet units just tell you how many pallets there are in there.

Our share is determined on our share of what are the flows that we get, not necessarily the number of units that we've got in there. So they don't correlate necessarily to each other. It depends on which flows we do et cetera. So hence why the 24% share is right, as is the 15% of revenue.

Cameron McDonald: (Shaw and Partners, Analyst) Okay, so is Brazil roughly 15% of your pallets as well?

Nessa O'Sullivan: We don't split that out because we only reported on a region basis but overall don't use the 24% as indicative of the number of physical pallets we have in the regions. That wouldn't be the right correlation or conclusion to reach.

Cameron McDonald: (Shaw and Partners, Analyst) Okay, thank you.

Raluca Chiriacescu: Thank you, that is all the questions for now. So we will take a three minute break and then move on to North America.

The next two presentations are from Laura Nador, President of North America and Joaquin Gil, Senior Vice President of Financial Planning and Analysis. Firstly, Laura will take you through our North America operational update and then she will be joined by Joaquin, where together they will take you through the plastic pallets update.

Laura joined Brambles in 2003 and since then has held a number of roles including Country General Manager of Iberia and Vice President of Supply Chain in Latin America. Laura is based in our Atlanta office and will be joining us from there today.

Joaquin joined Brambles in 2018 and became Senior VP of Financial Planning and Analysis in March 2021. Joaquin was previously the Chief Financial Officer of CHEP Europe. Joaquin is based in our London office. I will now hand over to Laura.

Laura Nador: Hi, I'm Laura Nador and I will be presenting to you our CHEP North America business. Last month we shared our fiscal '21 results and it was a strong year for CHEP North America.

It was one filled with many challenges across the supply chain from suppliers to carriers to customers. However, CHEP's continued investment in customer value creation and efficient capacity helped us reinforce our market leadership position.

It allowed us to deliver historical top line growth, profit leverage and margin gains in the last two years. So we are very, very happy about all this. As we look forward to fiscal '22, we do expect continued market volatility with inflationary pressures and ongoing supply chain headwinds.

I will share with you how we plan to overcome them. Considering the challenges that we face as a leadership team, we asked ourselves some key questions; how has our strategy worked so far? Are we focused on the right things and given all these volatile market contexts; do we need to adjust anything?

And finally, what is the best strategy to sustain our growth and our margin improvement trajectory in the future? So I will answer these key questions in that order through my presentation.

First, I will open up with an overview of the business. Second, I will discuss market volatility impacts and what actions we have taken as a business to address them. Third, I will give you an update on how we're tracking on our margin improvement journey before digging deeper into our growth strategy.

And finally, we will get into the transformative initiatives that will take our business to the next level by 2025. So by the end of this presentation, you will walk away with a clear idea of our key areas of focus in North America and how we are going to continue to deliver shareholder value for you in the future by creating more customer value by digitally transforming our business, focusing on asset productivity and network efficiency and achieving business excellence.

So let me first give you a quick overview of our business. We continue to be the clear leader in the North American market and we represent about 44% of Brambles business globally. Our nearly US$2.3 billion dollar business is supported by 4061 essential workers.

And because of them, we can efficiently serve most of our customers within a short distance, 50 mile radius, or for more than 350 service centres.

We have about 120 million platforms that carry [unclear] to almost 60,000 customer nodes across North America. And this scale and density gives us a privileged position to provide better service to our customers anywhere in the region.

That is even when the context becomes quite challenging, which is what I want to discuss next. Last year was a volatile year, one that none of us could have predicted and we're seeing that volatility continue for the time being both on the demand side and the supply side.

So I would like to share with you some examples of headwinds that many companies and ourselves are facing in the market and what we are doing to overcome them at a high level. There are four main areas to discuss: lumber inflation, labour shortages, transport shortages and supply chain volatility.

High level macroeconomic factors, such as consumer demand volatility and the uncertainty in global supply chains, which was driven by the pandemic created significant pressure on key input costs, but not only for us, also for our customers and for our suppliers.

Inventory build-up in the supply chain also created market wide pallet shortages and we took several immediate measures to address this. For example, we accelerated our sawmill strategy and we leveraged our global reach to mitigate the unprecedented increase in lumber costs and to have supply continuity.

We included shortage protection in our contracts. We focused on retention and an employee value proposition to ensure that we had the essential workers needed to keep the supply chain moving. We collaborated with our customers and our transport partners to improve visibility and communication, as well as drive pallet returns.

We made efforts to rebuild our safety stocks with investments in new pallets and also continued to invest in durability improvements. And we ensured that we had the right pricing mechanisms in place to cover those increasing costs, which we succeeded at as you have seen in our fiscal ‘21 results.

I’d like now to discuss the pallet scarcity issue and our view of how long the situation might persist as I know this is top of mind for you as it is for us and for our customers. I talked about some of the macroeconomic factors and their impact on cost earlier.

Now what happened as a result and it's still ongoing is that pallet inventories across the supply chain went up. They have grown. Both manufacturers and retailers have increased their stocks. But what is more telling is the volatility behind that increase.

We saw a large pallet flush after the panic buying last year, followed by a stock build-up within a very short span and that created a bullwhip effect for the supply chain. The market wide lumber and pallet scarcity promoted changes in behaviours too such as stockpiling for safety or to protect the margins against inflation, higher unauthorised reuse of our pallets as well as evidence of black market activity that we saw through our digital deployments.

So what are the implications for us in the short term? Well, we expect this situation to persist through fiscal ‘22 with lumber and supply challenges and lower pallet returns continue to have an impact on availability. The low stock levels in our network combined with some moderation in retail sales will result in lower issue volume when compared to the first half of last year.

However, we anticipate to fully offset this volume effect with rate and mix benefits on the other hand. We also expect to see elevated levels of IPEP for the time being as the different actions that we put in place start to deliver improvements.

Supply chain costs will remain high, given the inefficiencies related to low stocks in the network that I mentioned, but we have taken several additional actions to address this situation starting with communicating and collaborating with our retail and manufacturing customers. I cannot stress enough how important it is to do this in a proactive manner.

Changing the behaviours such as this ordering just in case or growing the safety stocks or reusing is critical to reverse this trend and I'm regularly on customer top to top meetings to discuss precisely this and so is my team.

We're also creating organisation wide focus on asset productivity, leveraging data and analytics and smart asset deployments to take targeted actions and improving our pallet collection mechanisms, as well as continuing our investments to create our safety stock in the network through pallet purchases.

I will dive deeper into several of these actions in just a moment, but first I know that the US margin journey is top of mind for you as our investors. So we're going to cover that first.

Last year, we were faced with economic and social challenges beyond what anybody could have foreseen. Most experts and economists trying to forecast the future got it wrong and reality proved to be very different to those projections.

During this time, I have seen our team rally to deliver results and adjust to the unprecedented volatility with enormous resilience, delivering one point of margin improvement for a second consecutive year, despite the incredible headwinds.

If we look at the fundamental pillars of the margin improvement plan that I shared with you before, we're pleased to see that we have delivered against all of them, setting a great foundation for future margin expansion.

We've made significant progress in advancing our pricing strategy as evidenced by the fact that more than 80% of our contracts now have the shortage coverage. And we have delivered effectively 5% of price contribution to sales this year.

From a cost perspective, I'm really proud of the progress that we have made in fully implementing our accelerated automation program and I'll expand on how we're looking to take this to the next level in the coming years.

Our lumber sourcing strategy has yielded significant benefits and this is also something that we're looking to expand in future years as part of a transformation program. So these results demonstrate that our strategy is working. Our team's dedication proves that we have the right people focused on the right priorities and we have a robust and detailed plan that will take our business to the next level by 2025.

For ’22 specifically, at this point, we are still targeting margin improvement in the order of half a point, approximately. Of course, with the caveat that market dynamics do remain unpredictable and we will endeavour to manage through that as we have done in the past couple of years.

I'm sure you as investors are much less interested in the past and much more so in the future, especially in terms of growth prospects for the business. So let's get into that.

If you look at the chart on the left, the North American pallet industry represents over 870 million pallet flows. The marketplace remains somewhat fragmented with almost half of the market, still served by whitewood and the other half by poolers.

Over the past year we have seen some consolidation happening in the whitewood space with regional players becoming more national in footprint and we estimate that the other national poolers, specifically ITBS and PECO together, they share approximately 10% of the market, with ITBS growing a bit faster recently, due to the ongoing Costco transition to plastic. You may also know that PECO has been acquired recently by USS Alinda private equity.

Now, if you look at the right-hand side, we continue to have a robust pipeline of [unclear] and new opportunities from a change in supply chain landscape driven by eCommerce, growing new channels, pent up consumer demand and more sustainability conscious consumers.

We will remain disciplined in our portfolio optimisation approach and pursue opportunities that best feed our network value offering and all those that leverage our cost position. But first let's discuss why customers choose CHEP.

CHEP has maintained its leadership position by building strategic partnerships with customers who truly value what we bring to their operations and we differentiate this by three things: by building trusted partnerships, by reliably delivering on our corporate position and by being leaders at enabling sustainable and regenerative supply chains.

Over the last three years, we have been able to strengthen our position as the preferred supplier for the largest fast moving consumer goods and retail companies in North America. Our advantaged network size and our density helped us build trusted partnerships with those customers and during the pandemic, our workers were deemed essential personnel and they went above and beyond to ensure that we repaired and provide pallets so that the most essential goods would reach everyone who needed them.

We partnered with our customers to find opportunities to optimise their supply chains through freight collaboration, empty mile reduction and elimination of single use packaging. And we believe that we have been able to help control our costs much better than our competitors by leveraging our global sourcing contracts.

Our collaborative efforts to drive supply chain efficiencies and sustainability benefits have been recognised by many leading third party organisations, such as for example, EcoVadis, Top Employers Institute and the Corporate Knights.

We continue to leverage this strong value proposition to drive profitable growth. As you saw in the previous slide, the addressable opportunity is still very large in the region. So let me tell you how we're going to capture that growth.

Our strategies to deliver profitable volume growth by prioritising market attractiveness. So we will protect our strategic relationships, those that enable our scale, those that geographically are desirable accounts that optimise our supply chain cost.

We will improve those high potential markets with high turns and low cost to serve. We will capture new growth in attractive segments and channels where we have pricing elasticity and where our value is rewarded by customers. And we will also grow through new product offerings where we can cross sell and upsell customers with our entire suite of products.

But before we get into our transformation initiatives, I want to give you a deeper look into our pricing strategy and our growth expectations in the medium term. Our pricing is a journey. It has evolved from cost plus to market based to value based pricing in our continued effort to achieve pricing excellence.

As we move forward, we will strive for a seamless integration of systems, customer insights and cost clarity to execute at the highest level.

Based on the customer insights and the willingness to pay surveys that we conducted over the last year we have uncovered pockets of differentiated value for us to target moving forward. With improved data analytics goal is to reach more predictive versus reactive pricing approach that will help us transform our commercial portfolio management into portfolio optimisation and highlight those ideal customers who are willing to pay for the value that we create.

For the upcoming year, we do expect market volatility to continue. I said that, but as the market begins to stabilise, we need to unlock a data-driven value-based pricing approach. And this will be done through strategic adoption of core pricing principles.

So just understanding core drivers of customer value, cost clarity and delivering on our differentiated value proposition that allows us to capture that value. And this coupled with insights and analytics will help us reach our mid-term growth ambitions.

So what are those? What should you expect in terms of mid-term growth for North America. For the past years you've seen our growth has been driven by equal parts volume and price. While we expect to continue this balance, we'll put a focused effort to drive new growth, leveraging our market leading position to expand into new channels and new segments, as well as through new products and services.

Our new business development strategy is focused on profitable volume growth. So we will target business that is favourable to our network footprint. We'll do this through a very disciplined top to bottom funnel management to drive profitable growth and accelerate pipeline conversion velocity.

We will continue to be price leaders and we do expect to see 2% to 3% price mixed growth as we roll out our value based pricing. We will also continue our shortage strategy to offset any inflationary risks.

Yesterday you heard from Helen on how we will use data-driven solutions to improve our business model and to find new value for our customers. CHEP North America tends to be at the forefront of that transformation to enable sustainable growth in the range of 5% to 7% in the medium term.

Now let's look at the North America transformation initiatives and part of what makes us so strong is the diverse group of leaders that we have. I thought it would be great for you to hear directly from them on how we plan to transform for the future.

And after the video, I'd like to dive into a couple of these initiatives as they are critical enablers to deliver sustainable growth.

Our strategic initiatives are centred around our key value that all things begin with the customer, but the critical differentiator of that value is driven by our people. We are committed to safety, diversity, people and teamwork and this year I am so proud to share that we've been recognised as one of the nation's top employers, as well as a leader for our demonstrated commitment to inclusion and diversity.

Labour is an ongoing issue facing the entire supply chain. By 2030, there will be a shortage of an estimated two million workers in manufacturing. By automating our facilities we have improved employee retention and efficiencies, which has been critical during this year of extremely high demand and unpredictable ordering.

People want to work for companies that invest in their employees and provide them the tools needed to be safe and successful.

Digitising a portion of our pool will have a tremendous impact on improving visibility in the supply chain. It will allow us to follow the journey our pallets take from the time they leave CHEP to the time we get them back. Having this visibility can point us not to just leaked assets and black market activity, but it can also provide the intel we need to pressure test new business models and create value.

The information from digitised assets will allow us to partner with our customers to drive out unnecessary waste and costs in their supply chains. We can deliver a timestamp process load mapping and share if there are gaps in peaks and transport and logistics, which can ultimately lead to better on shelf availability and improve sales.

The data collected can also provide product innovation insights that customers can use to improve their packaging design making sure that it stands up to the rigors of their unique supply chain characteristics.

Growth through new channels and enhancing our business model by leveraging digital is a critical component of our strategy. As the market leader, we constantly look to identify and penetrate new markets faster and smarter than our competitors.

Using the data from our deployed digital assets we can identify new growth opportunities that reduce risk and more responsibly invest in CHEP's and our customers futures.

In FY21 we made some terrific progress towards our FY25 sustainability goals, both in terms of processes and products. The first product I'd like to talk about is our Q Plus plastic platform, which is manufactured completely from post-consumer and post-industrial plastic waste.

The next program is our double-wall block program, which we're substituting a much more durable block, which is comprised of a combination of recycled wood from our own service centres and recycled plastic from industrial sources. This block is more durable and is much better at retaining nails than our previous wooden block.

The final program that we kicked off in FY21 is our pallet remanufacturing program, which takes pallets that were previously unusable and turns them into a like-new condition. We were able to remanufacture thousands of pallets in FY21 and we saved 40,000 cubic metres of wood waste from entering landfills.

We're very, very excited about FY21 and beyond, as we drive even more initiatives towards sustainability.

Achieving our goal of regenerative supply chains is something we can't do alone, which is why collaboration with customers is such a critical component of this journey. Over the past few years, we've helped several customers achieve their sustainability goals. It's these combined efforts that will help all of us go faster on our path to regeneration.

The help of our communities and our relationships with each other is just as important as the environment in creating strong, resilient future fit businesses. Through our targeted partnerships with Junior Achievement, the Arbor Day Foundation and Feeding America, we seek to have a positive impact on our communities and our passion for diversity and inclusivity builds a positive creative workforce rallied around our compelling purpose.

We are incredibly proud of the value we create for our customers from freight collaboration to empty mile reduction, to the elimination of single use packaging. We will build on our relationships and market leading position to accelerate growth with existing customers and to penetrate unserved channels in both the US and Canada.

Driving operational efficiencies through automation will continue to be a key lever in our strategic plan and in the video you heard Ron mention that automation created a safer environment for our people by reducing the number of arduous tasks conducted by repair operators.

So this is great value, supporting a zero harm workplace and driving operational efficiencies where the critical deliveries of the first phase of our automation plan.

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Despite the impacts of COVID-19 on lockdown restrictions and staffing challenges we remained on track and delivered more than 50 installations across North America and these newly automated lines have achieved an impressive 30% increase in solar capacity and 20% increase in repair capacity versus our fiscal ’18 base.

So based on this success of the first phase, our automation roadmap will continue. We'll get our automation journey through phases, 2.0 and 3.0. And while in fiscal ‘22, we will continue expanding our phase 1.0 to more sites.
We will already be preparing for our next phase; Automation 2.0, which is about creating the plant of the future through automating our inspection and quality processes using robotic components, removal and reattachment of nails and fasteners.

And for our third phase; Automation 3.0, we envision a minimal touch repair plant that will reduce our dependency on traditional labour force and open up jobs to virtually anyone, potentially even employees with significant physical disabilities.

Over the next few years, we plan to automate six to eight service centres per year, providing additional capacity increases of about 3% to 5% per year in the short term. So you can see, this is really exciting for us.

At the beginning of the presentation I also referenced our efforts on improving asset productivity and asset protection. So let me take you through some of the details.

Asset productivity is fundamentally important to our business. And I have discussed earlier how certain external market dynamics have created challenges in this area. But as part of our transformation program, we have an organisation wide effort to improve asset productivity through specific targeted actions that will deliver sustained short-term and long-term value.

Our initiatives are centred around three things: changing customer behaviour, improving asset control and productivity and leveraging data and technology. Through data from our smart pallet deployments, we have been able to uncover patterns of flows across specific channels and segments.

And as a result of learnings, for example, we have increased pricing for non-participating distributor flows to cover the higher cost of losses, and to eventually reduce these flows.

We're also heavily focused on increasing the retailer collaboration to create new value for them to be compensated for reuse and to ensure timely recovery of our assets. And on the pallet collection front regarding the asset control, we are expanding our small frag private fleet program, as well as our multi-colour pallet processing centres to remove the need for pallet sorting on distribution docks which is often the main reason for non-participation in the program.

We have recruited talented asset protection managers to address black market activity and to protect our legal title. Finally, advanced data analytics is a critical enabler to our goal.

We have been redesigning our processes end to end collecting and analysing our historical data as well as new data from our smart assets to better understand the typical journey of a pallet by segment and by customer. By combining the power of machine learning and artificial intelligence, we will take specific actions to help reduce losses in cycle time in the end to end supply chain.

Last but not least let me also share with you what we plan to do to create enhanced customer value through digitisation efforts. Helen Lane took you through some of the key aspects of this journey yesterday and as I mentioned earlier, our goal in North America is to be at the forefront of digital technology to not only improve our own processes, but to create a best in class experience for our customers.

So we will look at every aspect of that customer journey from onboarding all the way to retention and on how digitisation can help us improve the key elements of that customer's experience at each step of the way.

So just for example, improving my CHEP, our customer facing digital portal through ongoing enhancements like the newly released ETA notifications, simplifying our order and invoice processes to make it easier for customers to want to do business with us, providing personalised proactive account health monitoring in order to optimise their operational efficiencies and creating greater customer loyalty by enhancing our value proposition.

So we will deliver innovative new solutions based on data and customer feedback, both so that we can deliver sustainable value for our customers. Okay. I think I covered a lot today. So let's sum it up. In summary, we are very confident that we will continue to deliver profitable and sustained growth.

As the largest contributor to Brambles Group growth, our strategics initiatives are centred around creating long term value for our customers while driving improvements in cost and asset productivity.

We will safely and sustainably deliver innovative products at the right value based price to meet our customer's needs today and for the future. We will differentiate ourselves by being planet, business and community positive while we pioneer regenerative supply chains.

We will leverage responsible investments for the safety of our people through agile and efficient automation. We will grow by expanding and leveraging our digital, new channel and innovative product footprints to deliver and then rival customer experience, and which you as our investors can expect as a result is the way we'll grow profitably and will deliver strong financial outcomes. At this point, I will start with our next section on plastic pallets. Thank you.

Plastic pallets have been around for many years. You may be surprised to learn that CHEP is already the largest pooler of plastic pallets globally. We've got 19 million of them, but Costco size and their relevance give this investment opportunity a very high profile.

Today, I will give you an overview of the commercial rationale, the product itself and the business model that we are trialling with our plastic pallet. Joaquin will follow sharing financial considerations and a clear set of criteria that we have defined to assess the business case. And finally, Graham will close with his thoughts.

But first let me start with some context. Costco has been a critical customer and a partner of CHEP for more than 20 years. They have been one of CHEP's fastest growing retail customers and our top growth contributor across all channels, consistently outpacing overall [channel] volume growth by over 2x.

Costco has supported growth with our current customer base and has also been a key driver of new business wins in the region. Besides their importance to our growth strategy, Costco has also been a strong collaboration partner for the US and CHEP regions globally.

This strong partnership is rooted by our shared commitment to efficient and sustainable supply chains. Our vast supply chain at CHEP, our platform availability and our global presence fits well with Costco's transportation fleet, their supply chain strategy and commitment to asset control.

And this combination forms a strong foundation for the two organisations to create shared value for one another, but what makes Costco different to other retailers? Well, the answer lies in their unique supply chain, which moves products in full pallets from the beginning to the end with a very efficient cross dock model. That is why Costco often call themselves a pallet business and why they have been so deliberate about pallet choices over the years.

You may recall that first Costco transitioned away from wide pallet exchange to pooled pallets. That was driven by safety. Later they mandated only block pallets be used, and that was driven by efficiency. Now they're moving away from wooden block to plastic, to further drive supply chain efficiencies and increase member value.

So why is this relevant when we are considering whether to do plastic pallets. Well, plastic pallets work well within the Costco supply chain when you compare it to other retail customers for a few key reasons; starting with the store, which is what you can see in the bottom picture of the slide.

You will immediately notice that it does not look like the typical supermarket store. If you do your grocery shopping at Tesco or Walmart or Waitrose, they look and feel very different. This looks like a warehouse, which is what Costco calls their stores.

The store or warehouse has a very limited skew assortment, a very high percentage of which actually is their own private label and that enables faster inventory terms. That combined with the large size of the warehouses allows the products to be merchandised on full pallets, the same pallets that have been used since the point of production.

So the pallets do not just support the products through the supply chain in the typical sense from the first mile and the middle mile, but they're also the merchandising display for members to shop from. The cloud store strategy then drives the distribution model and Costco leverages a network of distribution centres, which they call depots and those are for the cross dock based supply chain.

The picture on the top shows you a typical depot; a long narrow building with inbound doors on the right and outbound doors on the left. Pallets are received on the right and they are moved in six to eight pallets at a time with a large pallet jack and they are instantly prepped for shipment to the store on the left-hand side.

They go to the store the same day. There is no long-term storage or racking. In fact, most depots do not even have pallet racks. So the cross dock starts the day in the morning empty and it finishes the same day completely empty again.

Costco has also invested in outbound RFID readers that are utilised across the entire depot network to capture both the product and the pallet to drive further efficiency. And this uniqueness of this Costco model and they are very fast and well-controlled supply chain is what gives us enough confidence to have engaged in this project so far and to advance into this pilot validation phase.

So let me give you a little bit more clarity about the model for plastic and how it is different from our current operation whitewood. The plastic pallet enables a different and a more cost efficient model. We're testing it obviously as part of the pilot.

In the wooden pallet that you see on the left, every pallet that is shipped to Costco ultimately ends up at one of our CHEP service centres before it can be shipped to a manufacturing customer. This is required to allow us to sort, inspect, repair and provide our customers with a high quality wooden pallet each and every time.

A key difference in the plastic pallet model on the right is that 75% of the pallets can actually be shipped directly to the customer from the Costco depot. And this is enabled by the much lower damage rate that the plastic pallet has and by Costco's agreement to inspect and sort our pallets at their depots.

Now this allows CHEP to send good quality plastic pallets directly to the manufacturers without sending them back to the CHEP service centre every time. This is resulting in reduced operating costs because we avoid labour in our own network and we eliminate a full leg of transportation.

Another key difference with a plastic pallet model is the interaction and piloting of a digital operating model. This leverages Costco's RFID network and integrates it with our own to provide pallet visibility throughout the Costco supply chain.

Every CHEP plastic pallet is uniquely serialised with RFID. So now customers will be shipped and responsible for specific pallets individually identified. The CHEP service centre network has also been outfitted with the required technology and the processes to support this new model.

This model and the data that it yields will provide us and our customers with greater visibility of what is happening with the pallets in the entire Costco supply chain. For CHEP this data and information we lacked as a key risk mitigant by driving asset control, stronger accountability for missing pallets across the supply chain and focused account support.

Additionally, we're testing a new deposit system, which is a mechanism to drive accountability for loss for members and small businesses that buy at Costco and to compensate CHEP for those asset losses. So much about the model. Let me show you now what one of these wonderful plastic pallets look like.

You can see here, the modular components that make our pallet easily repairable. It is also UL approved for fire safety and ISO 8611 certified for any load up to 2800 pounds.

The pallet you just saw went through many iterations and modifications to ensure that we were putting the best plastic pallet possible in the market and sustainability was key from the beginning. We wanted to ensure that our pallet is able to support our customers for many years without having to constantly grind into new assets.

So we innovated and we developed a modular solution that is easily repairable. This repairability not only supports our business model, but it also ensures that we stayed true to our relief of creating environmentally friendly sustainable supply chains. In fact, when you compare a wooden pallet with our plastic pallet in the Costco supply chain the life cycle analysis results are the same. That means that their environmental impact is comparable. You may wonder how.

Well, this is driven by a few key factors. First, the product is the same for circularity. The pallet is repairable and the damaged components are closed-loop recyclable, meaning that they can be reground and used in the production of new pallets. Second is the strong asset control in the Costco supply chain. If the assets are not being lost or misplaced you do not need to replace them. Third and last, the operating model. Plastic pallets have a lower damage rate than wood which enables a different type of operating model, as I showed you. That greatly reduces CO_2 emissions from less transportation.

Although the design, the IP and the tooling for these pallets are owned entirely by CHEP our customers played an important role throughout the development journey, particularly Costco. Our teams collaborated, tested and learned together as our pallet was being run through a gauntlet of Costco testing. That real-life Costco testing and our own pallet test [run] data gives us the confidence that actually we are taking a durable and sustainable product to the market.

As the market leader, our customers rely on us to provide them with a pallet that meets all of the industry requirements of a plastic pallet. So we are using a non-halogenated, food safe, flame retardant to ensure that our entire pool is and will always be fully fire safety approved. Because having non-fire safe pallets can cause our customers and Costco serious challenges. So this is critical.

We have also validated our pallet performance to the internationally recognised ISO 8611 standard at 2800 pounds for [our non-loads]. This ensures that all of our customer unit loads to that weight will be safe and operate across all supply chains and not just the easy ones.

Now to facilitate the testing of the product and the digital operating model, we have embarked on a large scale trial to validate our key assumptions. To do this effectively we needed the scope and the scale of our trial to truly represent our presence in the Costco network with customers from a wide range of product categories, customer sizes and diverse supply chain strategies as you can see here on the slide. Our current pilot customers account for approximately 30% of our total volume in the Costco supply chain. They feature some of Costco's and CHEP's largest customers and vendors.

The value of the plastic pallet is being recognised early on through our achievement of pricing premiums in the pilot and the positive customer feedback on the pallet's performance. Asset control has been and will remain a key focus point throughout the duration of the trial. As we know, controls to prevent loss and protect our assets are the most important variable for long term success. We believe we are well positioned to control loss and leakage with strong language for losses in our contracts, with the digital operating model, proactive engagement across our entire customer base and with upcoming customer audits.

Within our own operations we adapted the processes. That necessitated strong focus on change management. But everyone understands that asset control is everybody's responsibility. Through the feedback and the data that we are gathering through the trial we will be prepared to make a recommendation on [further] pooling of plastic pallets for Costco in the second half of this year, fiscal 2022.

I will now hand it over to Joaquin Gil who will cover financial considerations, scenarios and decision criteria. Thank you.

Joaquin Gil: Thanks Laura. As Laura mentioned, in the next couple of slides I will be providing an overview of the key financial considerations relating to the potential investment in Costco plastic pallets, in particular the variables and sensitivities that impact the business case for plastic pallets, the decision criteria we will use to make the decision on whether to invest, and the high level long term implications if Brambles decides not to participate and Costco proceeds with the rollout of plastic pallets.

Let me warn you in advance that the slides that follow are a little detail heavy. But we wanted to share our thought process in detail so you can use the slides as a reference after today. I will do my best to step you through the slides. Let's look first at the variables that impact the financial returns from plastic pallets and determine the price premium required to make investments in plastic pallets economically viable.

As Laura outlined earlier we have extensive experience in plastic pallets in other markets so we have a very clear understanding of the key variables that drive the economics of plastic pallets. On the left hand side of the table you can see the five key variables listed. These are the capital cost of the pallets, the loss rate which is the number of pallets lost compared to the total number of pallets in the pool, the damage rate, the cycle time and the price we charge per issue.

Moving to the next column, this shows what our experience in other markets has been with plastic. For example, the cost of a plastic pallet is broadly three times the cost of a wooden pallet. The loss rate we typically find to be 30% to 50% lower than wooden pallets. This is due to the fact that we restrict the use of plastic pallets to low loss lanes given the high asset cost. It is important to note the loss rate in anything but low loss rate lanes would require a price premium that would make plastic pallets commercially unviable.

This is why we believe there are currently limited use cases where high cost plastic pallets are commercially feasible for other North American retailer supply chains. The importance of loss rates is also why we are testing as part of the pilot with Costco, RFID technology to track plastic pallets to minimise asset losses.

Moving to damage rate - based on our experience the damage rate on plastic pallets is normally one tenth of the damage rate we experience in wooden pallets. However this is somewhat offset by the higher repair costs. Cycle time is a key variable given the cost of a plastic pallet. It is important that plastic pallets are only used in supply chains where cycle times are low to again manage the price premium required.

But we would not expect the pallet type itself, i.e., whether it is a wooden or a plastic pallet, to change the cycle time. As Laura mentioned, as part of the Costco plastic pallet pilot, we are testing onsite inspection and reissue of pallets with one of the potential benefits being reduced cycle times. These variables of asset cost, loss rate, damage rate and cycle time all come together to determine the required price premium to wood.

Having looked at the key variables, let's now move to how we will make the decision on whether to proceed with the investment in Costco plastic pallets, something I'm sure you're all keen to hear. The decision on whether to proceed with the investment in Costco plastic pallets will be based on three decision criteria: 1) our expected financial returns at steady state, 2) Costco's commitment to product and operational requirements, and 3) Costco suppliers' acceptance of plastic pallets including our commercial terms.

Let's start with the expected financial returns measured at steady state. By steady state we mean post the full transition to plastic pallets which is likely to take around three years and when operational KPIs are consistent with what we would expect in the long term - so returns at approximately year five. The expected ROCI at steady state would need to be above single digits for us to consider proceeding with the investment in plastic pallets. At 15% ROCI it would be clear decision to proceed. At a ROCI of between 10% and 15% we would need to be comfortable that longer term opportunities existed to improve returns.

In order to proceed we would also require Costco's commitment to product and operational requirements. From a product requirements [commitment] the key is the plastic pallet quality requirements and product specifications are consistent across all plastic pallets Costco uses regardless of suppliers. Costco's commitment to operational requirements is also critical. As I outlined earlier the financial returns on plastic pallets are highly sensitive to loss rates and operational savings are important to be able to reduce the required price premium.

Hence, Costco's commitment to asset control and in particular RFID readers throughout their network, efficient and onsite inspection and reissue of pallets, and exploring potential for other operational savings are key factors in ensuring that plastic pallets are viable for the Costco supply chain.

The third key decision criteria is Costco's suppliers agreeing to use of plastic pallets and to our commercial terms and conditions including the required price premium to wooden pallets and compensation charges for any plastic pallets. We could argue this is the most important criteria as without this we could not roll out plastic pallets to Costco.

Bringing together both of these items, that is the key variables that impact the financial return on plastic pallets and the required financial return criteria leads to a very clear financial decision making matrix. The matrix you can see on the slide is based on the approximate midpoint of the potential cost of Costco plastic pallets. It is worth noting that the current cost of the Costco plastic pallet is above this midpoint with the recent increases in resin pricing. The horizontal axis at the top of the matrix shows the pool's uncompensated loss rate and the impact it has on the required price premium and as returns as you move from a low loss rate to a high loss rate.

The vertical axis on the left of the table is the average price premium to wooden pallets. Again, moving from being low at the top of the table to high at the bottom. The matrix highlights that the higher uncompensated loss rate, the higher the price premium needs to be for the financial return to be met. With green showing areas of return above 15% ROCI, red being single digit ROCI and orange being returns between these two points. While we are unable to share with you the specific numbers or data from the matrix given the commercially sensitive nature of this information, I hope it helps to highlight the very clear return criteria we have in place and the methodology behind it.

So what happens in a scenario where Brambles, based on the decision criteria, decides not to invest in plastic pallets but Costco proceeds with the rollout? The first thing to note under this scenario is Costco's conversion to plastic pallets will be phased whether Brambles participates or doesn't participate in the conversion to plastic pallets. Our estimate is that this will most likely take place over a three year period. Hence, it is not a situation where Brambles would lose all of the Costco volume immediately. We would expect to replace the lost Costco volume which is approximately 10% of our US volume, with new business over time.

Laura, in her North American presentation, highlighted the significant opportunity for long term growth that still exists in the US market with approximately 50% of the US market currently un-pooled. However in the short term it would lead to a loss of volume and hence inefficiencies in the wooden pool as well as short term transition costs, for example if wooden pallets needed to be relocated to other areas based on demand patterns.

From a capital expenditure perspective it would mean that we would not invest the capital required for plastic pallets at between $450 million and $700 million as well as capital avoidance over the conversion period, approximately three years of between $150 million and $180 million as wooden pallets are progressively released from Costco flows and redeployed to existing or new customers.

Having covered the key variables in determining the economics of plastic pallets, the criteria we will use to make the decision on whether to proceed with the investment in Costco plastic pallets and the likely impact of either of these decisions, let me hand over to Graham for his closing remarks on this topic.

Graham Chipchase: Thanks Joaquin and thanks Laura. I would just like to wrap up this session. We are proud of our long and mutually successful partnership with Costco. But whilst we strive to meet our customers' needs it is also important that we continue with a disciplined approach to capital allocation. Consistent with this I hope you have now seen we have established clear decision criteria on which to make this investment decision. Loss and damage rate outcomes and the resulting price premium are critical to the financial viability of plastic pallets within Costco's unique supply chain.

The results from the pilot will provide key inputs to our decision but this will be in the second half of fiscal 2022. We've got a strong pipeline of growth opportunities in the US both with Costco and in the overall market. This last bullet point is very much addressed at the concern I know some of you have got around contagion risk. Currently there are limited use cases where high cost plastic pallets are commercially feasible due to the significant price premium we would require to compensate for higher loss and damage profiles in any other retailer supply chains given the current high cost of plastic pallets.

So with that we are very happy to take some questions and answers on this subject so I'll hand over to the operator.

Operator: Thank you. We will now to Raluca for questions.

Raluca Chiriacescu: Thank you. The first question is from Justin Barratt at CLSA. Go ahead Justin.

Justin Barratt: (CLSA, Analyst) Hi guys. Thanks very much for your time again today. Joaquin I appreciate that you've spoken to your experience in other markets compared to wooden pallets. But I was wondering if you could talk specifically to your experience with Costco specifically in relation to loss rates and cycle times. That might give us a bit of a better indication of what the impact could be of a decision to potentially proceed with supporting Costco with their plastic pallets.

Joaquin Gil: Yes, thanks very much for the question. Look, obviously a little challenging to answer as we tend not to talk about specific customers. But I think hopefully what you can tell from the presentation is we wouldn't be doing the pilot with Costco if we didn't think that there's a possibility that they meet the variables that we talked about in terms of loss - low loss rates, damage rates and cycle time. But that's the whole reason that we're doing the pilot, so we can be really clear on the assumptions. Because the other thing to bear in mind is wood may or may not be reflective of what happens in plastic.

Justin Barratt: (CLSA, Analyst) No worries, thanks. That's all I have for the moment.

Raluca Chiriacescu: The next question is from Anthony Moulder at Jefferies.

Anthony Moulder: (Jefferies, Analyst) Hello all. I just want to understand the growth profile for the US. Obviously it's interesting or important if you don't go down the path of doing a plastic pallet for Costco. I guess over the last several years we've seen CHEP lose market share in North America. Now we're hearing that if you don't do Costco, you'll be able to replace that 10% of the US pool with new customers. Where is that new customer growth coming from specifically, because I struggle with that kind of strong growth in new customer wins given the lack of penetration increases over the last 10 years?

Laura Nador: I'll take that one Anthony. Thank you very much. I hope you can hear me well. I was a little bit curious about your comment on market share. Our data actually shows as you saw in one of the slides in the presentation that actually we have not lost market share over the last three years. The contrary is true by the way. But we have been more diligent and deliberate about where we want to grow and how we want to grow and that that growth in volume has to be profitable.

So we do see really a lot of tremendous opportunity in growth that I hope I outlined in the presentation. There is a temporary situation that we have been discussing so far which is related to the global lumber challenge and the pallet scarcity that right now implies that we have to be very surgical with our wins. So where we are going after new business right now is the right markets for our supply chain and for our customers and always prioritising our existing long term customers so we fulfil their demand before we go into other places.

But there is significant opportunity of the - if you saw the slide on growth - addressable growth of the $870 million plus flows. There's a substantial portion of that, about 37%, that is addressable in what we consider to be the short to medium term. We have very clear knowledge of what are the product categories and the channels where that growth is possible - without revealing many secrets because competitors can be hearing right now. But there are four major categories. We're not looking at these just by going for the category. We are targeting specific customers within those categories, those that actually are better suited for our network so that they feed our footprint, they help us lower cost to serve overall. The opportunity is very large. So does that address your question?

Anthony Moulder: (Jefferies, Analyst) So what has been their reluctance to join the CHEP program prior to now then? If there are these large customers that are the opportunity, why haven't they seen the value of the CHEP system before now please?

Laura Nador: Sorry, who? I didn't quite catch your first part.

Anthony Moulder: (Jefferies, Analyst) Sorry, I thought you were saying that there were large customers out there that you would target. I'm just wondering as to why those customers haven't necessarily seen the value in the CHEP proposition prior to now.

Laura Nador: Large and small - I mean there's the whole spectrum of customers. We have not - as in the past perhaps you have seen some of the strategies were related to winning back some of the very large customers from competition. That's not necessarily the smartest way to go about this. We have identified and served customers, so customers that currently continue to use, for example, whitewood unpooled pallets that we are going to target specifically, so be more deliberate about that, as well as accompanying of course some of our existing customers on their omni channel [efforts]. So they're growing through different channels as well. We are developing the right capabilities and the right collection engines and controls to ensure that we can accompany that growth as well.

Anthony Moulder: (Jefferies, Analyst) Thank you. I wondered - you talked about participating or non-participants in the system - how big is that as far as a percentage of volume that goes to those non-participants? How do you close them down if you can?

Laura Nador: That percentage, I wonder, we're getting into a lot of sensitive information here - but we do have a pretty stable percentage of non-participating distributors at the moment in our mix. Again this is one other area where we are very deliberate about not necessarily growing - in fact we have not gone about growing proactively with NPDs but we prefer to actually develop first a more compelling offering for them so that they are tempted to join the program. That's one way that we have to ensure that supply chain cost overall goes down for everybody. So that's the big win.

That's why we are investing in things like our small truck fleet, to ensure that we can go and collect pallets from these locations on a more frequent basis to ensure that those pallets come back, but also to sweep those docks because in many cases NPDs are not willing to join the program because that is something that is missing. They don't have the space. They don't have the ability to sort pallets for us in their docks.

So that's another thing that we're doing. We are implementing, or expanding actually, the implementation of [multicoloured] processing centres. So we think that with the combination of these two that we'll be able to actually attract more of these NPDs to actually become participants in the program. That will give us additional growth opportunities and be profitable the way that we want them to be.

Anthony Moulder: (Jefferies, Analyst) Yes, very good. Joaquin I wanted to ask about the damage rates of the plastic pallets, that you're doing it for 25%.

Nessa O'Sullivan: Sorry Anthony [can we move on from that]? It's the same question you asked me yesterday. So just to complete the picture there are other things also to note. We said that the mix of NPDs has stayed fairly consistent over the last three to four years. We said look it's under 10%, it's over 5% directionally. Laura and her team have been very focused on repricing those contracts where we're now identifying higher loss rates.

They are also working directly with the people who are emitting the flows, that in some instances where we know they go down to NPDs and there's a higher loss, that they go on to whitewood or other platforms where a pool solution, the cost we'd have to charge them would be prohibitive. So it's not one dimensional because actually a flow to an NPD can be profitable if we can price it accordingly and get the pallets back. So Laura I just thought I'd add to your answer just to complete the context.

Laura Nador: No, that's good. I noticed that yesterday you touched the point that this question was - or a similar one was raised. It is about the customer here. So I do hear sometimes the question asked about why do NPDs. But the reality is customers need to fulfil their needs through the spectrum of their own customers that they have to serve. As much as possible, if we can do it and make economic sense, be profitable at doing it, we would always want to accompany those customers and support them through their different needs. So yes, NPDs can be profitable. Many NPDs actually are very good. They perform very well. So NPD is not [unclear]. We shouldn't land there.

Anthony Moulder: (Jefferies, Analyst) No but I guess the point is that it's important if you can reduce the pricing then you reduce the risk that they will leave to go to white pallets. I want to move on to a question for Joaquin. I want to move on to a question about plastic. The damage rate that you've mentioned on one of those slides or the level - the percentage of the pallet pool going back to a service centre at 25%, that seems high relative to the damage rates of wood. Can you just explain as to how you're thinking about that return of those plastic pallets back to a service centre?

Laura Nador: Yes, absolutely. Usually with the 25% as a correlation to damage, there is a component of that - actually the largest component of that 25% is a rebalancing factor. It's not related to damage of the product. The damage of the product is expected to be in the single digit to give you an idea, so much, much lower than the wooden pallet damage rate is. But we do have things like returns direct from stores and we do have some geographic relocation that needs to happen to send back some pallets to the customers. Those will not go through the cross dock and the direct sorting and the depots that I was talking about. So that's the reason why the 25% is there. It's not an image of damage rate, just to be clear. Does that help?

Anthony Moulder: (Jefferies, Analyst) Understood. Thank you very much, yes.

Raluca Chiriacescu: Just to give everybody an opportunity to ask questions if we could limit it to two questions please, that would be great. The next question is from Scott Ryall. Go ahead Scott.

Scott Ryall: (Rimor Equity, Analyst) Right Raluca. I hear you loud and clear. Laura I was wondering in the US you mentioned the margins growth that you've had in the last two years and the .5% that you expect this year. Do you think that's - I mean we can't see the US margins based on what you report. Back in 2018 when you made the - when you indicated you would increase margins by 2% to 3% by fiscal 2022, the margins for the overall North American business was 16% and it's now 14.7%. So I guess - do you consider that it's been a success? Has Canada and LATAM dragged that much on margins that given your 75% of revenue of the Americas pallet business, I wonder whether you've actually increased margins over that time by 2% to 3% or regained the lost ground that happened in 2019?

Laura Nador: Okay, so - that's a loaded question there Scott. I'll give you - there's different pieces of it. I think that if I think about whether I consider a success, the strategy, I said in my presentation I do consider that the different pillars that we established for the strategy are delivering for us. Yes, fiscal 2019 was a setback. It was flagged. So at the time I remember very clearly, very vividly, that investor day - very different feeling to today I can tell you that. At that time we were entering that phase of huge inflation in transport and we were not covered by surcharges. I said that at the time. I said, look if this continues fiscal 2019 margin will be under pressure, which is what happened.

So fiscal year 2019 took us down from the first half of 2018 that you reference now. But since then we have been delivering very strongly. That's what I look at. I look at 2020, I look at 2021, I see the achievement of the team and I cannot be other than proud. Because I think that given the circumstances, given the context with COVID now falling upon us, the fact that we managed to deliver is actually a little bit more than two points, and since fiscal 2019, of margin improvement I think is a really strong credit to the team for being able to achieve that.

Do I think that we have a good basis for future improvement? Absolutely. I think that the strategy is strong. I think that the transformational plan that we have in place for the next four years is also very strong. Does it mean that we control everything? We don't. So the context that sometimes plays some tricks on us and the important thing here is to anticipate, to be ahead of the trends that we're seeing, be prepared and protect ourselves. So things like the surcharge implementation was terrific. I think the team, the commercial teams, did a fantastic job.

Some of you in the room back in March 2018 did not believe that we would be able to implement all of these surcharges and change the pricing that we needed to change in the contracts. You look at it now and you're saying well, bloody good job right there. Because we have more than 80% of our contracts already with surcharges. So now we are not so fearful when inflation starts to rocket up like we have seen this year unfortunately in all of the key inputs. We do have much better protection.

Our teams have trained to see through this and are prepared to act more proactively than we were before. We're more savvy about our costs, which is a major difference to what it was in 2018. We have a lot more cost clarity and we are no longer talking about averages and looking at things in a - now what is the average of the cost. We are much more specific about how we go about pricing to understand the cost to serve really deeply and to be able to recover that cost to serve through our pricing. So I think that's again a great thing.

On the other big initiatives as I said in the presentation, the automation, the lumber - the lumber sourcing strategy - kudos to the team. I think that's been done really well. Again considering the circumstances of all the lockdowns, the challenges that we had to staff plants, to move people around all these installations, the fact that we managed to implement all of these automations in time and deliver more than the business case, to me it's a reason to be proud. I don't know if that's what you expected to hear.

But I think the team is - has built a lot of momentum. That I can tell you. We're all really committed to continue on this journey. I told [you that] fiscal 2022 may be a bit more moderate in terms of our potential space for margin improvement. But we do see that continuum of margin expansion going forward.

Scott Ryall: (Rimor Equity, Analyst) Okay, great. Then the second question I had was with respect to the decision criteria. I'm not quite sure who will answer this. But could I just clarify that the greater than 15% ROCI proceed, is that based solely on the investment in plastic pallets? Or does it take into account some of the inefficiencies that you identified on slide 58 where it shows you'd reduced your CapEx but obviously there's some replacement on the way through that takes five years to get to your ROCI. So could you just elaborate a little bit more on that? Is that the incremental impact to the whole of the Americas business or the US business? Or is it just isolated to the plastic pallets investment please?

Joaquin Gil: Yes, look it's based just on the plastic pallet investment. I think as we talked about, while there will be some very short term transition costs and impacts on the pool, at the medium to longer term we don't expect through additional volume and new business. Also I think we've got a good track record of finding ways to find operational efficiencies. That's one of the reasons that the pilot obviously with Costco is so important, but also as we look at how can we bring operational costs down to offset that.

Scott Ryall: (Rimor Equity, Analyst) Okay, thank you. That's all I had.

Raluca Chiriacescu: The next question is from Matt Ryan at Barronjoey. Go ahead Matt.

Matt Ryan: (Barronjoey, Analyst) Thanks Raluca. I was just going to ask on the Costco situation whether you're envisaging that we're going to end up with a competitive situation where I guess the end result will be multiple poolers sending plastic pallets into Costco.

Laura Nador: Yes, I'll take that one. Thank you Matt. I think that at the moment clearly there are different poolers participating in trials. iGPS obviously is continuing to expand on a business as usual type of base. But yes we anticipate there will be more than one - iGPS for sure - the other pooler is a little bit more let's say lagging behind in terms of their activity right now in terms of piloting. But yes we anticipate more than one pooler will be the situation, yes.

Matt Ryan: (Barronjoey, Analyst) So I guess just looking for...

Graham Chipchase: Matt [unclear] which is whilst...

Matt Ryan: (Barronjoey, Analyst) …[unclear] you highlighted prices are...

Graham Chipchase: Sorry, could I just add one thing to Laura's answer. I think whilst we obviously, as Laura said, will expect there to be at least one other pooler, we wouldn't intend for this to be a competitive bid position on pricing. We are going in with what makes sense for us. If that doesn't make sense for us, we won't be participating. So I don't think you should think there's a sort of downward pressure on premium or an upward pressure on participation just because there's someone else who might want to do it as well.

Laura Nador: Absolutely.

Matt Ryan: (Barronjoey, Analyst) Yes, I guess that was going to be my question. How do you ensure that that stays in place over time? Because I guess you're investing in a much more expensive asset, price is much more important. You could potentially get that initially but if you're spending $0.5 billion on plastic pallets I'm assuming that you're going to want some certainty of that price continuing over time.

Laura Nador: I'll take that one Matt. Thank you. I think that I don't necessarily see it differently to how we see the rest of our business. So if you look at our position with the wooden pallet as well, there are other competitors, in fact more than one. We are able to be the price leader in the market. So I would say we would apply the same rigour and discipline. We would assess always against a very specific criteria and we will make decisions responsibly on that basis. So this is not a war for volume, in the same way that it's not on the wooden pallet side as well.

Matt Ryan: (Barronjoey, Analyst) But I guess is there a downside scenario that could develop in a few years' time where you've committed to pallets that are in the system but you do see a lot of pricing pressure and the economics that you see at the start of the process actually deteriorate over time to the extent that you're no longer seeing value in continuing that plastic proposition?

Laura Nador: I don't - again I think that's what I answered before. Any new business and any new product that you bring to market, make sure that you set the prices as right as possible at the beginning. Have the mechanisms to adjust in case situations change. For example, [your input] costs vary significantly or the performance very significantly and we're doing that in the way we are setting up the commercial terms in the contracts that would go with this new product. So I don't see that's a different scenario compared to the rest of our business. I think that is the case.

Is it a risk that you're going to have a competitor that goes ballistic in future? Maybe. But they have been burned before. So we have seen in the past where they tried to go in an irrational way with regards to pricing and it cost dearly. This is a more expensive asset as you said very well. So I don't think anybody would be so silly - pardon my language - to actually lower prices so low and risk their own sustainability - financial sustainability. That's my view.

Matt Ryan: (Barronjoey, Analyst) Okay, thank you. That's helpful.

Raluca Chiriacescu: The next question is from Paul Butler. Go ahead Paul.

Paul Butler: (Credit Suisse, Analyst) Hi. Thanks very much. A question for you Laura. With the financial data that you report we have visibility on the size of the problem around lost and damaged pallets to some extent. But I don't think we get visibility on what the size of the problem or opportunity is around unauthorised use of pallets. Can you quantify what's the magnitude of that issue in terms of lost revenue for the North America business?

Laura Nador: Okay, so I'm not sure that I can give you necessarily a number for this. But we do have much better visibility I will tell you, about what is actually happening with our pallets and what kind of reuse is happening, particularly on the institutional side. It's not only there but particularly with retail. That's the reason why in the last couple of years we have actually been putting specific effort to increase the compensation for reuse.

So we have been renegotiating - as our contracts with retailers - participating retailers - come up for renewal we are actually introducing new clauses and additional - where they were present we are leveling the price to where they need to be to compensate us for the cost to serve, that particular use - [the reuse]. So we have been increasing quite consistently and significantly that revenue and we will continue to do so. So that's part of our strategy.

We have a retail team that in the same way, in the same fashion that we have strategic account management for our manufacturing customers, we do have strategic account management for our retail customers. That's one of the things that we're looking at. So we proactively reach out to them, we monitor their performance. There is extension in cycle time. We do deploy digital assets as well to gain that visibility where we have doubts or where we suspect that there could be additional use. Then we share that information with retailers and use that as the basis for the conversation to renew those contracts and include the appropriate compensation. That's part of our strategy going forward, and it's working. It is working.

Nessa O'Sullivan: Laura I just might add another point to that too, is that one of the things that we did to help us detect that is we used data analytics quite extensively in Latin America where we could work out anomalies in declarations where it didn't look like the declaration was matching where the flow was going. That's opened a load more conversations with customers to be able to better recover losses and also to identify the cost.

That's one of the things that the US team are now leveraging and actually they're looking at taking it to the next level with some of the things Laura talked about, about things that we're pioneering in that market. That's one of the key things, using data to better say, where are we missing something that we should better understand in our network. So that's an additional piece that's on top of that.

Paul Butler: (Credit Suisse, Analyst) Could I sort of get a - I don't know - an order of magnitude indication? I mean is it lost revenue of less than 5% or is it more like 20%, 30%?

Ness O'Sullivan: This is something that we don't disclose. You can draw your own conclusions from the [inaudible]. We factor it in internally as we look at the cost of recollections and what else might we be missing out on. But that's not something that competitively we disclose or would make commercially available to the market. But we do see it as an opportunity. We do see it as an opportunity that the data and the digitisation should help us to gather - to be able to get some more of that value back into our network.

Paul Butler: (Credit Suisse, Analyst) Okay. If I can ask one more question. Laura you talked about moving to value based pricing. I guess that's the ultimate destination on getting better visibility of your cost to serve your customers. I spoke to one of your customers recently who has said that they had seen a 150% price increase within the last year. I'm presuming that's a customer that's a high cost to serve. But just wondering where are you in the journey of getting better visibility of the cost to serve? I mean because clearly you're using the digital capability to do that.

Laura Nador: Yes, so if that was 150% they were getting a very good deal for too long right? So other than that, that's nowhere near the magnitude of the increases that you would see across the different renegotiations that we are running. So anyway we're good at pricing but not that good. So in terms of where we are - this is a journey - actually we've been on this for the last three years.

We started by ensuring that we built the capability. We actually went out and recruited external talent that were experts in pricing. We created a revenue management team, a team whose expertise is actually in this field. We also invested in systems to ensure that we would have the ability to integrate all of this, the different pieces of this puzzle that we need to build, which includes market data, other competitor data and our own cost to serve - a lot of different elements to it - in a way that would be accessible systematically so that we can process that amount of data and as much as possible, close to real time.

So that kind of - that was the preparation. We started to move from that prior average cost, cost plus type of modelling into introducing the elements of what is called market based pricing which has been going on for the last couple of years. We now are in that final stage of the process of sophistication of our pricing methodology that will take us to value base. We already started doing some of the initial work last year in terms of understanding customer values, where are the elements of value according to the different customers.

This is not a magic solution for everybody. We need to understand what are those areas where we can differentiate and where there could be a value - an additional value, an elasticity around pricing that we could tap into and the cost clarity element that I mentioned before, so understand really in detail the true cost to serve. So combining all these three will take us to - from next year. So I would say that that value base will really kick on for us in 2023 and beyond. So for now we are still progressing on market based for the most part and really getting ready to that value based part of the journey from next year on.

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

Raluca Chiriacescu: The next question is from Jake Cakarnis from Jarden. Please go ahead Jake.

Jakob Cakarnis: (Jarden, Analyst) Thanks Raluca. Just one quickly for Graham. Can we talk about some of the risk sharing in the plastic pallet model? If I read the flow diagram correctly on slide 51, it looks like households are paying a deposit for plastic pallets. Then it was mentioned in the preamble for plastic pallets that your customers - so the FMCG and brands, would be paying higher prices. Can I just understand whether or not this is a free look for Costco and what some of the financial burdens are for them please?

Graham Chipchase: So I think – so you've defined the risk elements I think absolutely correctly. So Costco's consumers are getting a deposit and if the pallet doesn't come back to Costco after a certain period of time the cash comes to us. That's one element. You're right, the way we're mitigating the risk from the other - the manufacturer side is clearly they're getting a price premium.

But from Costco's perspective what they've already done and will continue to do is invest in their network to help us reduce loss rates. So they're putting a lot of RFID scanners into all their distribution centres. We're looking now at whether there were some major stores that they can also put in RFID to help restrict losses. So their cost if you like has been the investment they've made. As you know they're very much focused on a view that the supply chain network should be able to offset additional costs because of the lower loss rates, the lower transportation cost, the lower logistic [friction] by using plastic.

Now this is where we have some difference of opinion with them which is why the trials are so important. Because once you expand the network across the whole breadth of the supply base into Costco we feel there is likely to be a bit more leakage than with just focusing on some of the more closed loop elements of Costco's supply chain. That is why we're doing the trials, to see then just what the true cost to serve really is and make sure that the price premium is adjusted effectively. So that's kind of how the risk is being shared.

Jakob Cakarnis: (Jarden, Analyst) Okay but just building on that part, to Matt's question earlier, given that it looks as though from the risk sharing Costco has a lot of negotiating power in this. What's to save them coming back in the future and asking for lower prices or better terms be it from you or from your customers?

Graham Chipchase: I'll start this and perhaps Laura can finish it off. I mean let's be clear, our customer is the manufacturer and Costco effectively is the advocate, not the contractual partner. They will contract with the manufacturer on the unit cost of the final product of which the pallet cost is quite a small element. So it's down to us to negotiate with the manufacturers and that is why we are saying, look we need to look at the cost to serve and that's what will determine the price. So it's not really - Costco are not involved in that other than saying they are advocating and they want the whole supply chain to move to plastic. Laura is there anything you want to add to that?

Laura Nador: I think you just nailed it Graham. It's very important for us and it's just the way it works. Costco is not involved at all in any pricing discussions. It's never been for wood and it's not for plastic. We preserve that confidentiality of any commercial agreements with our manufacturing customers. The reason a single price - by the way so it's not like Costco would mandate a price across the board. So every manufacturing customer, according to their supply chain dynamics, their cycle time, their loss profile - their metrics will determine what is the relevant price premium and the overall price level that they will have in each case. But I think Graham you covered it very well.

Jakob Cakarnis: (Jarden, Analyst) Okay. Just a second question just in the interest if time while I've got you Laura, the 50 basis points of margin expansion expected in FY22, given it's the first time you've issued this guidance are we expecting any skew to either half from that margin expansion just noting what happened in fiscal 2021 where there was a pronounced second half skew to the margin accretion?

Laura Nador: I'm looking at Nessa so see if we can actually say anything about this at this point.

Nessa O'Sullivan: Well I think look what we'll probably do is that when we do the trading update in October we'll guide a little bit more to that. If I was thinking directly, potentially [weighted] to half 2 but there are a few moving parts that we want to see what happens with some of the input costs over the next few months. But we'll try and give some better clarity or a little bit of a guide towards it when we do the trading update.

Jakob Cakarnis: (Jarden, Analyst) Thanks guys, appreciate the questions.

Raluca Chiriacescu: The final question is from Sam Seow at Citi. Go ahead Sam.

Sam Seow: (Citi, Analyst) Yeah guys, just quickly just to understand slide 54 looks like you're trialling 30% of the Costco volumes on plastic already. Can you maybe give us an idea when that started and how much of that is already in the US numbers for FY21 reported?

Laura Nador: Just let me clarify. Maybe I wasn't that clear with that 30%. So the customers that are involved in the pilot, if we consider all of their volume would be representative of that 30% and the categories that we are looking at because we are trying to drive representation across all the different types of supply chains, customer sizes - categories because of cycle time components, there are many differences between the different categories. But we are - for example a very large customer which is actually the largest customer in the trial, there's only two facilities that are involved in the pilot. So the volume of the trial is nowhere near that sort of 30%. It's just statistically it would give us representative data for about that 30%. But the amount of pallets is much, much, much smaller. It is a trial.

Sam Seow: (Citi, Analyst) So can you give us an understanding then on how much of the Costco volumes are on trial then and how much is in the US numbers already reported?

Laura Nador: Not much in the numbers that we reported. In the numbers that you have seen, you probably have seen about 70,000 to 80,000 issues only. So you can see that it is not that significant in the overall scheme of our revenue. We anticipate about 200,000 in total issues. It's not the same as the number of pallets by the way because these pallets [turn]. But that's what we anticipate between now and the end of the first half.

Sam Seow: (Citi, Analyst) Yes, okay. Thinking about unauthorised pallet use or misuse, I mean a lot of the investor day has been about asset efficiency improvements that you'll get from tracking I guess less than 1% of pallets. What do you think could happen if plastic goes ahead and 10% of US pallets are serialised or tracked?

Laura Nador: Sorry, let me rephrase that to see if I understood because the line was cutting a little bit. So you're asking me about risk of plastic pallets going out of the Costco supply chain. Is that the question?

Sam Seow: (Citi, Analyst) No. I'm talking more about the investor day, we're talking to asset efficiency improvements just from tracking less than 1% of the pallets. If plastic does go ahead and now we're tracking 10% of the whole US pallet pool, what is the opportunity there? What shall we see?

Nessa O'Sullivan: Could I just make a quick comment Laura? Is that this - the loops that we're seeing in Costco we think they're quite unique. We think that they have characteristics that are unlike others. So I wouldn't draw a conclusion from what we're going to do with plastic across the rest of the wooden fleet. That was something that Joaquin highlighted there, that the characteristics of wood may not reflect plastic and recognising that the flows and the loops and the velocity in Costco is fundamentally different to others across the network. So sorry Laura, I'll hand back to you.

Laura Nador: That's right. Sorry but I had some problems with the line so I couldn't hear all of the question. Apologies for that. Absolutely Nessa, you're totally right. Bearing in mind that it's not just the actual circuit, the efficiency, the level of control that currently exists with Costco, but it's also the additional elements of control that we have like the digital abilities that we have with the RFID coverage and the ultra-devices for a portion of the pool on top of - plus additional SOPs on the Costco side and the manufacturing side and our service centres. So we believe that that will help reduce the leakage. Now we're testing that. It's early days. The pilot is ongoing and there's a few months to go before we can call the metrics and have them be representative.

But we are encouraged by what we are seeing so far. Particularly on the Costco side we are seeing cycle time metrics are actually at or better than business case. We're seeing very, very little leakage out of Costco. But we're measuring now also what's happening with the manufacturing side. That could be where some of that leakage could happen. We have different mechanisms to control that too. So [unclear] this is the most important area of monitoring and validation that we're doing through the trial.

Sam Seow: (Citi, Analyst) Too easy. Thank you.

Raluca Chiriacescu: There are no more questions. In the interests of time we will move on to our next session before coming back for a final Q&A and closing remarks.

Our final presentation for today is from Phillip Austin, president of Asia Pacific and IMETA businesses. Phillip joined Brambles in 1989 and became president of CHEP Asia Pacific in 2014 and also took over as president of CHEP IMETA in July this year. He has held a variety of senior roles across Brambles including chief financial officer of CHEP Australia. Phillip is based in our Sydney office and will be joining us from there today. I will now hand over to Phillip.

Phillip Austin: Thanks Raluca. It's a real delight to introduce to you first today the Asia Pacific region. It's a combination of discreet markets with differing dynamics that are brought together by a common DNA in the asset responsible, asset transfer, daily hire variant of the CHEP business model. As the graphic shows the region has a heavy weighting to the mature markets and across the portfolio I am excited by and confident in the sustained performance and potential in both the mature and developing markets.

This will be outlined today by first, exploring actions taken to sustain performance in Australia and New Zealand, a focus on RPC growth potential in ANZ that is underpinned by long term contracts. We will take a look at the operations of the largest business in Australia and how it has and will continue to deliver ongoing competitive advantage and growth. We will be outlining the progress and performance of our South East Asian operations and exploring our progress and position in China as that market evolves. In short, and as the slide says, Asia Pacific is well positioned to continue to deliver profit, leverage growth and strong returns.

In Australia we have the oldest original most deeply penetrated country market. Our New Zealand business is not that far behind having commenced there in 1975. We sustain the strong performance of these businesses through comprehensive optimisation actions. For example to the left of the slide in Australia, over the past few years this has included improving customer experience, refreshing and optimising the plant network, prioritising leadership. Liz is a seasoned executive providing 100% focus and discipline to both operations and growth. We have been deploying new technologies in analytics, planning and logistics, launching new products and targeting and securing an ongoing scale presence for the next decade in RPC pooling.

It is those actions that deliver performance and enable potential. We have retained all customers and are maintaining that historically strong circa 3-1 market share. We have improved customer experience in VS scores. We have continued price indexation, improved asset utilisation and strong cash collection results, delivered further overhead productivity improvements of 1.5 points and we have sustained high employee engagement and increasing gender diversity.

Now in that time window the team has done and continue to do an incredible job managing COVID impacts. Whilst calendar 2020 was cycling stops and starts with our customers it is clear that volumes have remained at Christmas peak levels since then. Really we can't see any volume normalisation until the confluence of both post-Christmas timing and sufficient vaccination rates. It's going to be a brave inventory planner anywhere across our customer base who advocates for a rapid step-down from their current higher levels of holdings with the current uncertainty.

These recent challenging circumstances are the latest across a decade of change, and yes, what is a mature – but it's never stationary – market. It's a decade that's seen the rise of e-commerce, significant changes in consumer behaviour, the end of the domestic automotive manufacturing [serve] market, and the growth, loss, and now regaining of RPC volumes.

Across that changing decade, the Australian business has delivered sustained performance, low to mid-single digit revenue CAGRs leveraged to profit, driven by comprehensive actions that will continue to deliver sustained performance and growth potential in the future.

To the second text area on the slide, New Zealand is also a strong market for CHEP. The business holds over 90% of the standard pallet market and is the largest RPC pooling operator in a well-penetrated fresh produce supply chain. We, again, sustain and optimise the New Zealand business through a range of comprehensive actions, including strengthening the leadership team, upgrading core repair and wash infrastructure, upgrading the RPC asset pool for the decade ahead, securing core RPC retailer contract volumes out towards the end of this decade, and enhancing processes and deploying technologies from across the Group.

It's those actions that deliver performance and enable potential, a sustained pattern of low- to mid-single digit revenue growth, restored price momentum in the core pallet business, high customer attention and customer NPS results, increased asset utilisation and cash collection.

We've improved overhead productivity by two points, and industry leading employee safety programs and results, and sustained top quartile employee engagement. We have an outstanding leader here in Mike Lewis, and he's built a strong and high-performing team around him.

Now, COVID-19 has, in this market, subdued demand, with customers and importers struggling to secure anything more than normal levels of palletised inventory. There has been some short-term logistics inflation, and we're unlikely to experience significant timber inflation in this market.

So, to summarise for the New Zealand business, it continues to improve its performance from strong market positions, low- to mid-single digit growth leveraged to profit that really sweats the recent investment in plant and the asset pool.

Further growth opportunities will be delivered through our network advantage, be it in the early days for plastic and fractional pallets, or the continuing conversion and growth potential of RPC applications. Now, beyond the developed markets sustaining organic and price growth in the core pallet business, a clear driver of future growth is the RPC business.

As the graphic on the left illustrates, there remains significant incremental growth opportunity. I'd like now to take you through how we've retained and rebuilt our position in this segment. In New Zealand, we have exclusive or preferred supplier term contracts with two of the three key supermarket retailers and majority share of volumes in the general markets.

In Australia, we commenced in October 2020, a 10 year contract to outsource and transform RPC supply operations for Coles, transitioning more than 90% of suppliers on day 1 and a targeted pricing. We're receiving positive supplier feedback on key quality and service deliverables and building a strong retailer partnership relationship.

We're investing now around $50 million so far, and about $10 million still to come, to maximise returns over the term of the contract. We have had some COVID-19 delays in our automation program that will carry some inefficiency into this financial year. We will deliver in this program a $5 million year on year improvement, and then optimised operations and growth all the way out to 2030.

The program is well-positioned to meet our investment case and enable future growth. Now, the RPC business in ANZ can create customer and shareholder value in a way that, perhaps, the IFCO business could not in our northern hemisphere operations because there is a concentration of retailers in both markets who are all very strong in fresh, who specify the use of our crates, to customers who are existing CHEP pallet customers in regions that are already served by our plant network.

That network advantage supports profitable, ongoing growth opportunities in ANZ in a number of ways. First, inside existing retailer contracts, where we mutually target lines for conversion on a rolling forward program. For example, post a contract renewal in New Zealand, we saw two years of double digit increases and now still continuing growth.

Inside emerging new sectors, where in Australia, we're already serving inbound flows into meal kit providers, for example, and there's growth by being inside retail innovation. These RPC contracts place CHEP as a credible, strategically relevant, scale and proven supplier, with local and global insight for the introduction of any form of new plastic, unitised, standardised solutions that will meet the needs and demands of store formats and retail supply chains as they continue to evolve.

The takeaway here is that we're very pleased with the performance of our RPC segment in the region's developed markets. Our recent investments are underpinned by long-term contracts, and we see attractive potential for ongoing growth.

Now, earlier, we outlined the range of actions that sustain the performance of our developed markets businesses in the region. Now, we're going to focus on Australia as the largest driver of regional performance. I'd like to outline how across the four strategic priority focus areas we will continue to drive the performance and realise the potential of the business.

On the left, in customer value, I'm going to highlight a few that are really extending our competitive advantage and platform for growth. By delivering innovation in new products that support promotion and fast retailer replenishment and expanding our offer of higher specification repaired pallets to meet customer's increasing automation requirements.

By deploying technology to raise the consistency and level of product quality, and by improving our physical network and online services. All of these also support sustaining price realisation through customer value recognition and delivery.

In the column next to that on the slide, there is a relentless evolution and renewal in asset efficiency and network productivity that will drive future performance. We're lifting the yield from our network and transport through the latest software tools. We're diversifying a sustainable log and milling supplier base for both certainty of future cost, and certainty of future supply.

We're finalising a four-year enhanced capital program over this next year, investing about $45 million so far and around $15 million to go; upgrading the wash network for the next 10 years; consolidating sites, creating additional capacity and improving automation across more than 30% of the pallet repair network, and simultaneously improving storage, customer truck turnaround times, and employee safety.

Now, not only do those investments, say, cut direct pallet repair costs by 10% or the unit wash cost of an RPC by 50%, they provide the long-term backbone for our operation. We design, locate, and build with the intention of replicating the more than 20 year working life of the plants that they've replaced.

Now, moving to the third column. We think about Australia in the context of the broader group digital strategic priority. Here, we've already explored value through asset digitisation trials, and we've pioneered robotic process automation, delivering savings, and with further scaling and deployment opportunities.

We've pioneered customer data analytics, driving their insights and enabling more efficient and effective service by our employees. We've pioneered transactional analytics. For instance, there are more than a billion transaction elements in Australia alone per annum.

We're already accelerating improved pool integrity and identifying patterns and anomalies that are driving revenue integrity. Finally, in the column on the right, as we look at business excellence, we will continue to do the right things in new and improved ways.

Maintaining outstanding cash collection levels, lowering costs, and improving sustainability as we've just done with that recent move to 100% renewable energy, and we will continue to lower our overall overhead spend. But none of the programs on this page happen, nor can they truly deliver sustainable competitive advantage, without our single most important asset: our people.

Accordingly, we are perpetually enhancing our programs and progress, be it across talent, learning and development, skills and capabilities, inclusion, diversity, and wellbeing. We have high employee engagement and a culture that supports relentless evolution and renewal.

So, to close out this section, this is how the business in Australia will continue to deliver for its customers, employees, and shareholders, to deliver the results you've come to expect, driving ongoing competitive advantage and growth. So, we'll now look at the progress, performance, and position of our developing markets business in South East Asia, where we're continuing to shape and strengthen the current foundation for ongoing growth.

Over the past few years, we've been focused on making progress by ensuring high customer attention, investing in plant automation, embedding processes and systems improvements from across the group, re-establishing price indexation, and significantly improving employee engagement.

That strengthening of the foundation of the business has so far delivered mid- to high-single digit revenue growth rates, improving profitability with capacity for future growth and leverage, improving customer NPS scores, high utilisation levels, a six-point improvement in overhead productivity, and positive cash generation aided by strong cash collection and LEC enforcement.

Now, ongoing COVID-19 waves in Malaysia and Thailand continue to interrupt the businesses of our customers, our competitors, and our own supply chains. Thankfully, our teams to date have stayed safe and managed well the ups, downs, inefficiencies, and opportunity to remind customers of the value of our core service.

We've not seen strong domestic inflation here. The business does rely on imported lumber and is managing the cost increases and supply delays and challenges as we've outlined for the Group as a whole. We are accelerating local options for complaint lumber to reduce exposure to both supply and cost pressures going forward.

So, for South East Asia, where in aggregate, our primary competitor does hold a larger market share than CHEP, we see a continuing path of mid- to high-single digit revenue growth, improved profitability, and returns., We'll also be carefully monitoring any structural or market opportunities that emerge from the potential for competitor ownership changes over the next few years.

Finally, in our outline of the regional developing markets, we turn on this slide to China. Now, first, a brief history. Our market entry in 2006 was effectively at a pre-palletisation stage of supply chains. Since that time, we've seen government recognition of the importance of logistics in the domestic economy, the continuing accelerating reduction of the traditional logistics unskilled labour force.

We've seen strong increases in domestic consumption. We've seen increased supply chain and logistics consolidation and automation that really begin to shape the market for palletised loads. We've seen the creation of pallet and associated supply chain infrastructure standards.

Palletisation is now an element of the central logistics five-year plans for the economy. We're further encouraged by the genuine moves of regulators to place greater emphasis on sustainability in action. This can only support the future growth of environmentally efficient and effective share and reuse pooling models.

Now, as the graphic illustrates, whilst the market for the use of pallets is now large, the adoption of pooled solutions remains low, and accordingly, that path to pooling remains long. Beyond that large but unserved market scale, two other structural elements are relevant to our approach in China.

Firstly, our primary competitor is currently the largest pooler in the market, and it's benefited both from its state-owned enterprise status and the injection of thinking from PE stakeholders since 2018. Secondly, the market for basic rental, let alone pooling, remains heavily price-focused and constrained.

So, accordingly, in this market context, our purpose in China is to build a foundation and options for future investment-worthy growth through ensuring high customer attention and targeted growth in key retail, e-commerce, FMCG, and logistics sectors by injecting new leadership.

Nancy is only the second leader in CHEP China's history, and she is bringing an entrepreneurial approach, wide industry connections, and deep technology and logistics experience from both China and the US. We're accelerating network development through automation, also by building out a hybrid, low-cost network density model with strong local partners.

We're strengthening our disciplines in asset utilisation and asset legal title. Now, those foundation building activities of the past few years have so far delivered high customer intention and strong customer NPS results. Our timber pallet pool growth last year was around 30%. We added almost 300 new customers to the network.

We've improved profitability. We've had material increase in asset utilisation and cash collection, and overhead productivity improvement of more than 10 points with top quartile employee engagement scores. We've successfully legally enforced our asset ownership and legal rights.

So, we remain committed to the China market and exploring its potential. Whilst pricing and value capture is currently constrained for all, we do see other poolers showing some benefits of scale, and the market is in its early stages operating with a focus on asset utilisation, increasing turns and enforcing asset rights and ownerships.

We see this as encouraging for both the future shape and the continuing presence of those fundamental elements of markets in which we operate successfully. So, in closing on China, clearly, in the longer term, it continues to represent a high growth and high capital needs business.

But for now, and in the midterm, we will continue to build capability, partnerships, and options towards that growth horizon with an approach that is both patient and prudent, investing disciplined capital to balance both customer reach and relevance with competitive relativity, while we're positioning the business to create and capture both customer and shareholder value on that long path to pooling.

So, across Asia Pacific, we will protect and grow our strong market positions in developed markets by sustaining the strong, consistent performance in Australia and New Zealand, through actions that deliver ongoing competitive advantage and growth, while also growing in RPC, underpinned by long-term contracts.

We will unlock further value in developing markets by sustaining and continuously improving the performance of our South East Asian businesses and continuing our progress in building foundations and options for growth in China. CHEP Asia Pacific is well positioned to deliver profitable growth and continuing strong returns with ongoing, disciplined capital investment and cash management.

I'd like now to share some information and insight on the IMETA region, also to acknowledge the work of Craig Jones and the wider regional leadership team in building up and developing this important part of the Group over the past few years.

The region comprises our businesses in 17 countries across India, the Middle East and North Africa, Turkey, and Sub-Saharan Africa. As you can see from the slide, it already has scale, breadth, and depth, across the served markets. Now, my direct involvement is fairly recent, but I am struck with the parallel to the Asia Pacific region.

Deeply penetrated and mature country businesses with strong market positions that continue to grow, explore, and realise sustained performance over time alongside businesses that can and do benefit from that base of experience as they establish foundations for growth in emerging and evolving markets.

So, in this session, we will look at the wider growth factors in the region, an overview of the business in each of the more developing markets, and then focus in on the Sub-Saharan business. It is the largest in the region being around 70% of the revenue. It's an innovative and essential provider to the retail and FMCG supply chains across South Africa, as well as having diversified successfully into the agricultural and automotive sectors.

So, IMETA is a broad regional portfolio that reflects diverse business and market maturities, generating profitable growth, and sustained growth opportunities across the portfolio. We see two key elements combining to create a favourable environment for increasing growth momentum and further potential.

The chart on the top right of the slide shows the relatively high penetration levels and significant remaining growth potential of modern retail trade in Sub-Saharan Africa, Turkey, and the Middle East, and also the current low levels in India, which creates a longer term opportunity as that scale market evolves.

The chart underneath that one shows the scale and competitive structures of each market, our strong penetration to protect and expand in Sub-Saharan Africa, significant contestable whitewood and customer pools in Turkey and Middle East, and again, a very early stage market in India.

The frame on the left of the slide indicates that we see those elements combining to support an increasing growth rate and sustain potential for future growth as the modernisation of retail markets and supply chains continues and maturing supply chains more broadly demand standardised and consistent quality solutions.

So, in looking now at each of the developing markets, our purpose here is to responsibly expand and optimise the network in line with the pace of evolution from those same market forces. In Turkey, we see opportunity for a scaled business over time, despite our early growth being disrupted by significant asset recovery challenges, particularly from one large local retailer.

The team in Turkey, now strongly led by Chris, whose origins are in our successful South African business, have done the hard yards in resetting the business, improving the asset flow-through ratio to 98%, lifting revenue per issue by close to 70% whilst retaining over 80% of the revenue base on these new stronger terms.

We've utilised BXB Digital enabled devices to illuminate and close loss points with key retailers, and the team are increasing the scope, scale, and efficacy of our audit programs. The business was profitable, cash generative, in this last financial year. We're encouraged by the progress to date, and the continuing discipline and engagement with the market can provide a solid foundation for double-digit control growth for the years ahead.

Having commenced in 2007, our Middle East North African business has been on a slow growth path, expanding across Saudi and UAE with both local retailers and local and global FMCG customers providing the base to build a GCC network to both balance flows across the region through trade and optimise asset relocation volumes and routes. We also now have activities in Jordan to support the network, and we will assess other geographic markets within the region this year.

Now, volumes have been COVID-19 suppressed now for two years, missing the stimulus of around 10 million pilgrims per annum. Encouragingly, the CHEP business has still grown its revenue across this period, at the same time is actively mitigating COVID costs in disrupted relocations and imported lumber inflation.

The business is profitable and over any few years is cumulatively cash generating. Look, it's a complex region in which to operate from a regulatory perspective. Under the strong and focused leadership of Mageshni and her team, we see further opportunity in the region to lift revenue growth rates while being disciplined in the placement and scale of capital.

India was established in 2008 with both pallet and automotive crate pools and has continued to grow revenue by 10% to 20% a year and established an extensive network to support the movement of assets between customers and across the country.

Now, COVID-19 has caused immeasurable, sustained personal hardships for our teams and significant business interruption for customers and our own business. Fortunately, for now, the situation has stabilised. In addition to those COVID-19 challenges, a recent review of the business has led us to pause.

The majority of customers are using pallets on static hire only, and the propensity for accelerated pallet flow growth is low in the short term. At the same time, challenging process compliance and customer cash collections have negatively impacted the short-term performance of the business.

Accordingly, we are simultaneously downsizing and upgrading the supply chain network in India to better serve our customers, to work with partners who share our standards and values, and who will scale with us as the market adopts practices conducive to pooling.

We will more selectively target core growth. We'll continue our first-mile and mid-mile solution work with large e-commerce operators in India to serve both the domestic business and to operate as proof-point studies for other businesses and regions. We will expand our pooling and segment offerings in automotive.

We see the [right-size] business continuing to grow in a more disciplined fashion, sustaining mid- to high-single digit revenue growth, with an optimised and significantly lower supply chain cost to support improved profitability and positive cash generation as we option for our position in the evolution of that scale market.

So, in closing this section, we're holding a good portfolio of early stage and developing businesses in these markets with opportunity in the addressable market. We will continue to responsibly expand and optimise our service network and scale in line with the maturing of those local supply chains.

In turning to Sub-Saharan Africa, we have markets in Namibia, Botswana and Zimbabwe, and small and limited activities in Eswatini, Mozambique, and Zambia. However, more than 95% of the business is serving and operating from South Africa.

As the chart outlines, the business has very strong market positions in multiple segments across the end-to-end supply chain. It continues over the cycle to generate mid- to high-single digit revenue growth from existing products volume and price and new product and service solutions. It leverages that growth to the bottom line through fractionalising its fixed network costs, integrating the timber value chain, optimising its network, and through a relentless program of efficiency driven continuous improvement.

Now, again, COVID-19 has significantly impacted our South African teams beyond business interruption to include the loss of life. The team were further stretched by the civil unrest in July centred on Durban and KZN where so many of our activities and employees are based.

In addition to those challenges, volumes were suppressed by government restrictions in the second half of calendar 2020. There has been a staggered recovery of volumes across the past six months as the situation normalises, and right now, we're seeing volumes largely in line with expectations despite the current pandemic circumstances.

Looking forward, we see the deeply experienced and passionate leadership team led by Herman driving a wide combination of initiatives to sustain that strong historical performance of the business, delivering continuing mid- to high-single digit revenue growth across diversified segments with strong flow-through to both underlying profit and cash generation.

Now, in parallel with the mature Australian business discussed earlier, it's going to be a combination and sequencing of activities that will generate those forward outcomes. To the column on the left, as many of you are aware, South Africa is a centre of excellence in innovation for the Group in forestry and milling.

Since the acquisition of our first timber farm in 2006 in response to what was then emerging long-term supply shortages, we now own 18 farms, the most recent of which were acquired only last year, and all in the vicinity of our weatherboard sawmill and pallet assembly plant.

This initiative provides certainty of FSC supply and pricing for approximately 60% of CHEP's local annual lumber requirement. Further value is being created by optimising the end to end integration of forestry and milling with pallet demand planning, whilst also extending pallet durability through innovations in double-wall pallet blocks, composite boards using sawdust from the mills, and improved log yield from changing the cutting patterns.

The operation of the mills provides the South African business with certainty of supply and protection from local and global cost pressures, and supports our sustainability, governmental, and community engagement programs. Now, as noted in the centre column on the slide, South African business is also driving business excellence through a relentless culture of continuous improvement, improving processes and deploying technology from across the Group to improve its capacity, cost-to-serve, and improve the ease of doing business for our customers.

At the same time, the business has increased its focus and outcomes in asset recovery from unauthorised users of CHEP assets and is improving pricing yield in targeted customers and segments through enhanced analytics. Last year, for example, also saw further improvements in cash collection, asset efficiency metrics, a four-point reduction in the damage ratio, and digital illumination trials and commitments to serialise and track high value assets in certain segments commencing from this financial year as part of the overall digital transformation of the Group.

Now, profitable growth is further driven by business excellence, including investment in our greatest asset, our people. Amongst a range of programs this last year has been an ongoing formal mentor program building the capabilities of over 130 employees, and over 120 learnerships and apprenticeships targeted to disadvantaged individuals in local communities.

Looking at customer value, the business generates positives NPS results, and is constantly striving to strengthen customer relationship and experience to support the ongoing customer recognition of value. Current growth programs focus on the relatively concentrated retail sector in pallets and RPCs, and new in-store solutions, whilst also penetrating less fully-served verticals such as DIY, pharmaceuticals, e-commerce, and apparel.

At the same time, investments in plant automation, logistics capability, and plant network optimisation support both the retention of existing customers and future growth. The business retains a strong foundation, a really deep presence and connection to its customers and markets and will deliver strong returns and ongoing leverage growth over the forward plan.

I'm going to close this section by just summarising the IMETA region, where the business foundations are truly underpinned by our diverse and resilient people, creating and sustaining leading zero-harm, engagement, and customer experience outcomes, where we have a strong foundation for both sustained performance and potential for ongoing growth with a broad portfolio in developed and developing markets, and our strong network in key markets provides a clear, competitive advantage that enables efficient customer value creation and supports the profitable realisation of future opportunities.

Thank you. I'll now hand over to the operator for Q&A.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. I'll now hand over to Raluca for questions.

Raluca Chiriacescu: Our question comes from Anthony Longo from JP Morgan. Please, go ahead with your question, Anthony.

Anthony Longo: (JP Morgan, Analyst) Oh, thanks, Raluca. Good evening. Good morning, team. Look, just have a quick question on plastic. So, look, I do understand that Costco did certainly put this one on the agenda. I guess I'm really just trying to understand what the appetite from the manufacturer's perspective to actually absorb that increased cost within its supply chain. Is it purely just a function of pallet issue cost being such a low proportion? If you can perhaps maybe give a little bit more colour on that, that would be fantastic.

Philip Austin: Look, I think – that's obviously not a question for me. So, I might throw that back to, if Lara's not on the line, to the team in London.

Graham Chipchase: I'll take it if you like. So, as far as the manufacturers are concerned, they are being mandated by their customer, which is Costco, to use plastic pallets. So, they've got to find a way to make it work. Costco's view, which I think is partly correct, is that there will be savings accruing to the manufacturers from lower logistics costs because the plastic pallets are lighter, and they can perhaps get more pallets on the truck.

So, there's some saving, but it's not going to offset the cost – the total cost to the supply chain, which is the capital cost of the plastic pallet offset, hopefully, by lower loss rates and damage rates. So, in theory then, there is – if there is some net increase, it will be divided into the unit cost of the product.

Therefore, one would hope that the incremental cost to the consumer is actually minimal because, as I said before, the cost of the pallet and the logistics part of the total product cost is actually quite small in comparison to the total product cost. So, that's how we think it's going to work. But, as I say, it's Costco's view that this is something that has to happen, so if you want to supply into Costco, you will have to use a plastic pallet.

Raluca Chiriacescu: Anthony, are you there? As we wait for reconnection, there is a question on the web for Phillip. Given the success that you've had in South Africa, particularly with the milling operations, are there opportunities for doing something similar in the region or more broadly?

Phillip Austin: Yes. Look, thank you for the question. I think it's important to look back at the reasons that we invested in that market. There was a long-term supply shortage looming. The best way to move into that was ownership. Now, we've continued to expand in that way.

That's quite unique to that market. So, I think, what we do know is that we've learnt a lot from that process. So, what we've learnt out of ownership and milling and the end-to-end supply chain, we've invested in the sawmill project in the US, we've invested that intellectual property into our procurement processes for lumber.

So, I think we'll always look at the markets and the opportunities that are there, but in this instance, ownership was part of that, and there's no doubt that that's benefitted the Group. We'll continue to look at that across a range of markets, but it doesn't have to buy an owned solution. So, it's worked very well for us in South Africa. We'll continue to explore.

Raluca Chiriacescu: Thank you very much, Phillip. As we wait for more questions to come through on the phones, I might pass to Graham to make some comments.

Graham Chipchase: Yes. Thanks. So, what I thought I'd do is – without wanting to sound overly defensive, to perhaps tackle some of the comments that have come up overnight from the market. I have to say that the coverage, I think we've seen from the brokers and the sell-side analysts has been very balanced. I think it absolutely reflects what we were saying yesterday, but there have been a couple of comments that have come up, which I thought perhaps would be helpful to answer.

So, I've split them into three buckets. I think the first one is, why is this transformation different to ones that have happened before in Brambles? I think I said yesterday, this is not like the previous transformations. We've looked at what happened in the previous transformations, and we've learnt some lessons. It is going to be different.

I think one of the other comments was – is very much, yes, tell us all about the [jam] tomorrow, don't tell us anything between now and four years' time, and we'll hope to see the numbers, and invariably, we don't or we're not going to do it that way.

We have got granular, detailed milestones and targets which aren't just all going to come good in four years' time. There's a pathway, and we're going to track it and disclose it and communicate it through the balance scorecard which is what we talked about yesterday.

So, we will give updates every six months. There are some pretty important milestones along the way. I think the other difference is that this is a mixture, if you like, of the risk mitigation between things that we have done before in the last couple of years, and have delivered successfully, which we can have a lot of confidence about the delivery going forward, and some of them will deliver in the shorter term rather than the longer term.

As well as some more newer technologies, which again, we're comfortable with what we're doing, but we've been doing proof of concept over the last 18 months, but fundamentally, there's risk mitigated because we will not spend large amounts of capital if we don't think the project is going to return the value. So, it's risk mitigated in two ways. A mix of things we've done before, things we haven't done, and also the capital stage gating process.

I talked about the other lessons from the past. We have got broad engagement in the business about this. People understand why we're doing it. They're excited about why we're doing it, and they understand the need to do it. That sort of comes onto the second box, which is, why are we doing it now?

We want and we need to transform this Company and digitise it. The reason for doing that is because we want to still be the leader that we are today far into the future. With any business, if you rest on your laurels, particularly now, when the environment around us is changing so rapidly, and we've seen in the last 18 months some trends accelerate far faster than they've done for the last five or six years, for example, e-commerce – if we don't transform our business, if we don't disrupt ourselves now from a position of strength, it will be much, much harder to do it in the future.

I think one of the things we wanted to get across, and hopefully we did yesterday, is that this management team, most of whom you've heard over the last two days, have delivered on their promises from fiscal 2017 through to 2021. We have changed the business model. We've made it more resilient. We've done the things that we said we were going to do.

Therefore, we feel that this is the right time now to push ahead and transform the business from a position of strength. It's not a defensive action; it's a proactive action. I think the other thing I wanted to talk about a little bit is about growth and some comments around fiscal 2022.

So, I hope from today – and we talked about it yesterday, that you see there is plenty of organic growth opportunities in this business in our existing markets and in some of the new markets. We are not backing away from any of the previous things we've said about top-line revenue growth for this business.

It's mid-single digits, [drumbeat business] because it's driven from consumption of fast-moving consumer goods. There's talk of fiscal 2022 as a downgrade. I understand why people are saying that because, obviously, you've got $50 million of transformational – short-term transformational costs in there.

If one were to back that out, and if one were to assume mid-single digit revenue growth, there would be some leverage in ULP in fiscal 2022. That's on the back of a very, very good fiscal 2021. Now, we chose not to do that. We chose to put the costs up above the line because in the past we've had some criticism for treating it as special – as significant item.

So, what we decided to do was to treat – put it above the line and disclose it. Then you can do what you like in terms of including or excluding it. I think to describe 2022 as a downgrade, I understand why, from the headline numbers, but I think perhaps it's worth looking into the moving parts a little bit.

I think the other thing is to say that we feel that this investment, and we recognise it is an investment over a couple of years, is going to produce much more sustainable and consistent financial outcomes going forward. So, we've said in the past, mid-single digital revenue growth and underlying profit leverage.

Well, what we're saying now is, mid-single digit revenue growth and high-single digit ULP. So, you can draw your own conclusions from what that means. I think that means that we are actually trying to get to a higher level of financial performance going forward, backed up with good cash flows after we've gone through this initial period of capital investment.

We've been very clear about the need and the desire to deliver 10% plus in terms of value creation through both the earnings growth and dividends. So, I think – I think this is actually a commitment to stepping up the financial performance, not just pushing out what we've said a couple of years ago by another year, which I think has – it has been defined that way.

I think – I am immensely proud of this organisation and what we've done over the last year in particular, given the operating environment was so difficult. I've got a lot of confidence that all of this team, and the way that we've put this program together, we can deliver it. So, that's the commitment from us. We think this is absolutely the right time to do this. It's the right thing to do, and we're doing it the right way.

So, that was what I wanted to say. Very happy if anyone's got any questions, they want to pull up on that before we go into any other questions. Back to Raluca.

Raluca Chiriacescu: We have Paul Butler from Credit Suisse. Go ahead, Paul.

Paul Butler: (Credit Suisse, Analyst) Hi, Graham. I – in the comments you just made there, you talked about wanting to embark on this transformation from a position of strength because you see things changing very quickly at the moment. I just wondered whether you could just go into a bit more detail about the change that you're seeing that sort of give you the sense of urgency about doing this now.

Graham Chipchase: Yes. I mean, I think, what we – I think there's the external environment that's changing. So, more e-commerce, and as a result, need for higher quality, more automation in supply chain, therefore higher quality platforms. I think a need for – because there's, I think, more volatility and demand patterns.

I think that's something that, whilst it might mitigate post – after the year of very high volatility last year, I think we're still going to have a higher level of volatility in demand patterns, particularly as producers and retailers are trying to accommodate consumers more – I want it now. I'm not quite sure what I want, but I'll know when I see it type of buying patterns.

So, there's going to be more volatility in the supply chain. I think all of those things, if you put those together, that necessitates the need for us, and businesses like ours, to have the best possible information, real-time information, at their hands so that they can deliver the best quality service to our customers in time and at the right time.

So, that's where I think digitising is absolutely essential because it will allow us to provide a better service to our customers, and ultimately, consumers. But at the same time, we also recognise that we're a very capital-intensive business, and we think now the technology has now got to that point where it allows us to – it will allow us to make better decisions and increase our asset efficiency, which in the past, we couldn't do because the cost of digitising the pool and the technology around algorithms made it completely prohibitive.

Now, we think there's a way – and we've been talking about this for a couple of years – around, well, what's the point in trying to do digitisation? Where's the value? We think that we're now much closer to being able to realise that value. We've talked a little bit about the pilots that have gone in the last couple of years where the proofs of concepts are there. It's now a question of, have we got the confidence to roll this out, and start reaping the benefits in a much larger way?

I think those are things that are going on. I think we've got to – if we can't identify the specific risks, any business that has not changed its business model, fundamentally, for 20 or 30 years, should be very cautious because we all know there are examples in other industries where something has come out of the blue and completely disrupted the business model.

Therefore, if we can test ourselves, disrupt ourselves now, when we're not in a position of crisis, isn't that a far better thing to do, and develop our business model for the future, and start doing it now? Because if we delayed it for a couple of years, not only are we a couple of years later from actually delivering the end product, but there's that risk period where something might happen and – from left-field, and completely take away our lead and our position.

I think a lot of these activities are all about deepening the moat, as well as changing the business model for our customers. It's about making it even more difficult to replicate the network advantage and the product quality and service that we're delivering for customers already. That's why I think it's the right time to do it, and why we need to get a bit of a move on as well.

This is – we're going – we need to go as fast as we can, but not so fast that we take silly decisions with capital. That's what the balance we're trying to get right is.

Paul Butler: (Credit Suisse, Analyst) Can I just ask a follow-up? It's not driven by something that you see your competitors doing with, I don't know, adding the digital capability that you're doing at the moment? Or the risk that a third party is able to provide that capability?

Graham Chipchase: Absolutely not. We look very carefully at what's going on in the market, and the – over the last three or four years, since I've been here, there have been news flashes and press releases of competitors who have got the latest smart pallets. We always go and check what the technology is and what the capability that's being offered is.

Without wanting to be too negative about other people in the market, we've always – when we've done that analysis, we've always found that what we were working on was definitely going to be as good, if not a lot better. But we just didn't shout about it because we weren't in a position to deliver it and make sure that we were comfortable with it.

That's a bit of the culture of this Company, which I think is the right one, which is we quietly go about doing what we do, and we – with a quiet confidence that what we're doing is the right thing and the best thing. We don't shout about it until we think we can deliver it.

I think we're now getting to that point where perhaps we're talking very loudly rather than shouting that we're very positive about what we can do. There's no – there's nothing out there which we think is going to disrupt us now. But that's exactly why we should be doing this. It's when you know there's something out there, it's usually too late.

So, we're doing this before we get to that position, which I think is a really – it's a bit of a luxury to be able to do it actually because most companies find themselves looking down the barrel of a rifle and not being able to do anything about it, and we're saying, well look, we're in a position of strength; we're ahead of our competitors. We're doing the right things, but now's a chance to really push it forward a significant level.

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

Graham Chipchase: Thanks.

Raluca Chiriacescu: We have a couple of questions on the web for Laura. Just checking if she can hear us? Okay.

Laura Nador: I can certainly join. Hi, Raluca.

Raluca Chiriacescu: Hello. So, the first question is, we talk about the tech in the plastic pallet. Is that patented? Can others, including Costco, supply a similar modular pallet?

Laura Nador: Absolutely. Our design is fully owned by CHEP. So, yes, we have IP on the design of the product. So, it wouldn't be replicated as such by other competitors.

Raluca Chiriacescu: Excellent. Thank you. Another question for you. Historically, in the past, new pallets coming into Latin America have caused excess pallet issues with increased flows from Latin America on exports. Do you foresee that being a challenge in the future?

Laura Nador: Right now, we need every pallet we can get our hands on, so clearly – obviously the situation can change over time, clearly, it has in the past, but we have changed some other fundamental aspects of our operation in the US. At the moment, I don't see that being a risk at all. In fact, we welcome all those flows from Latin America right now.

Nessa O'Sullivan: It's fair to say, Laura, isn't it, that if we ended up in a position where we were getting a lot more flows, this is post steady state, when we get back the pallet pool in balance, then that just means we buy less pallets in the US, so...

Laura Nador: Exactly. Exactly.

Nessa O'Sullivan: We have the benefit of the lower-cost pallet coming into the US.

Laura Nador: Correct. Yes. Yes. Absolutely.

Raluca Chiriacescu: We have one more question on the phones from Scott Ryall. Go ahead, Scott.

Scott Ryall: (Rimor Equity, Analyst) Thank you. So, Graham, you've given a very passionate talk about the pushback, on the pushback maybe. You mention one thing in terms of the opening comments you made that you're going to show your pathway and your scorecard on an ongoing basis.

I'm just looking at the scorecard on page 34 of yesterday's slide deck. That – there's a lot of information in there that we don't have any baseline information on. How do you want to be judged on the success of this overall program?

Graham Chipchase: So, I think, a couple of things to say there, Scott. Thank you. So, if we had put in the six-monthly stage gauge to get those endpoints on that scorecard, it would have been about a 10-page I-chart rather than a one-page I-chart. So, it is there.

I think what we would plan to do is, after the first six months, we'll show the milestones it gets you towards the four or three year endpoint. So, that's how I think we would, in a very practical purpose, show you where – how progress is going. But I think to answer the big question around, well, how do we want to be judged? I think it's got to be a combination of the financial outcomes, which are out there in terms of topliner, the ULP growth, the earnings growth, the cashflow, keeping the ROCI high.

It's all those things, that's, I think, a given, but I think it's also some of the things underpinning that. So, we would want to make sure that our capability around digital and our ability to get value around asset efficiency were there, and we were living up to our ambitions there. I would also want to make sure that we were continuing to leverage technology and – so we could develop the market shares and the volume growth around the world because that's a key part of it as well.

Finally, and not by least, I would want to make sure that our customers were seeing the benefit of all this technology and the value. Possibly reflected in NPS scores, but also from just wanting to do business with us. I think if we can achieve what we're trying to set out in three or four years' time, I think it was nicely put in one of the slides that there being no question about who they would want to do business with, it would be such a clear choice.

I think from a commercial perspective, we need to be able to do that because we can't just stand here and keep on raising prices all the time, even if our costs are going up. We have to show that we are providing unsurpassed value to our customers compared to the competition or any other alternatives they might have.

I truly think that by looking after our own business and making it more efficient, we can create joint value with our customers, and we can provide opportunities for them to understand their business better and get more value for themselves. So, I think there is a real win-win-win here for ourselves, our customers, and clearly, our investors.

So, that's how I'd like us to be judged on this. There are some very specific things going through that. If we look at the sustainability objectives, which are 2025, rather than 2024, there are some very, very ambitious targets in there, but we've had a track record of, again, delivering the 2020 ones which were very, very ambitious when we set them.

That, again, is just such a critical part of our business model, and for the wider community, and all our stakeholders. That's another thing we'd have to – I would want to stand up and say we delivered that as well. Those are the main ones for me.

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

Graham Chipchase: Thanks.

Raluca Chiriacescu: The final question is from Anthony Moulder from Jefferies. Go ahead, Anthony.

Anthony Moulder: (Analyst, Jefferies) Thanks, Raluca. I just want to ask my follow-up question on that 15% ROCI for the plastic pallets. How did you come to that as the level of an acceptable return for plastic given that the ROCI for the business is higher than that, which would suggest that, I guess, some customers could look at that as to why plastic users would be priced at a 15% ROCI relative to what they're charged for wood?

Joaquin Gil: Yes. Thanks for the question, Anthony. Look, I think it's broadly in-line with the Americas return on capital employed, if you look at our results. So, we thought that was a fair benchmark, and a reasonable return on the investment.

Anthony Moulder: (Jefferies, Analyst) Right. Okay. But that's for the US. Would the US have higher margins, higher ROCI?

Joaquin Gil: Look, I think covering off the information that we disclosed, I think we'd say that's a reasonable return on capital.

Nessa O'Sullivan: I think, Anthony, you have to bear in mind that all of this is sort of – we've estimated where plastic pallet prices are going to be over time, what's going to be the cost or price of that. It's going to be dependent on resin prices. It's going to be dependent on steel. It's going to be dependent on the scale that we have. Similarly, there's a whole range of factors.

So, while you arrive at a number, it's, directionally, this is well in excess of cost of capital. We believe it's a fair return because of the solutions that we solve for it. But this is all part of determining on the trial what all the costs are, then what the pricing will be, and for us, starting with the level that would be way in excess of where we are currently being would seem an unreasonable place to start from, particularly as you are introducing a very high asset cost into the mix.

Then what does that do to unlock future potential for growth for us? They are all areas that, while we're looking at the contagion, we're also thinking about what this might do for our total business rather than missing out on the opportunity to continue what's been a really rewarding partnership with Costco. So, they're all the elements that would be brought together that would help determine what that is. It's not an exact precise science because all those variables will move over time.

Anthony Moulder: (Jefferies, Analyst) Yes. Appreciate it. Thank you.

Raluca Chiriacescu: That's the final question. So, I'll hand over to Graham.

Graham Chipchase: Thanks. Well, first of all, I'd just like to say thank you to everyone who has dialled in over the last couple of days. It's a bit hardcore and made much, much easier when we can all do it face-to-face, which I hope will be in the not-too-distant future.

I'd also like to thank everybody who has presented. It's, again, very difficult to present to a camera rather than a live audience. I think everyone has done a fantastic job. Thanks for all the great questions, as well. With that, really looking forward to seeing you soon in person. I'm sure if things [were the fair win] we might be in Australia in – early in next year, but – and we look forward to seeing you then.

Clearly, I know there will be a lot of calls and conversations in between then. But thank you very, very much for spending the time with us. We really appreciated being able to tell you about this exciting opportunity we see going forward. Thank you.

End of Transcript