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Brambles

21 August 2019

The Manager - Listings
Australian Stock Exchange Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Via electronic lodgement

Dear Sir/Madam,

BRAMBLES LIMITED ANNOUNCES FY19 RESULTS

Attached is an ASX and Media Release from Brambles Limited on its financial results for the year ended 30 June 2019.

Yours faithfully
Brambles Limited

Robert Gerrard
Group Company Secretary

21 August 2019
ASX & Media Release

Brambles FY19 result: Strong revenue momentum offset global cost inflation and broader cost challenges

- **Sales revenue** increased +7% at constant currency primarily driven by strong net new business growth and improved price realisation across the Group.
- **Underlying Profit**[1] increased +2% at constant currency as the revenue contribution to profit and supply chain efficiencies more than offset cost challenges in CHEP Americas and ongoing cost inflation in all regions.
- **Operational investment programmes and pricing initiatives in CHEP Americas** on track to progressively improve US margins and mitigate higher cost-to-serve in the region.
- **Operating profit and Profit after tax** impacted by Significant Items relating to the IFCO sale, updated risk assessment of historical losses in Latin America and US tax reform credits in FY18.
- **Discontinued operations** includes IFCO operating results and a US$945.7 million post-tax gain on sale of IFCO.
- **Free Cash Flow after dividends** deficit of US$(89.6) million reflects the US$73 million investment in US automation and lumber procurement initiatives which was funded by FY18 asset actions, and the part-year contribution of IFCO cash flow.
- **Return on Capital Invested**[2] remains strong at 19.5%.
- **2019 final dividend** of AU14.5 cents (30% franked) declared in line with current progressive dividend policy.
- **Brambles to move to payout-based ratio dividend policy commencing with the FY20 interim dividend**. Policy will target a payout ratio of 45-60% of Underlying Profit after finance costs and tax[3] which is in line with historic payout levels of ~55%. Dividends will be declared in US dollars and paid in Australian dollars.
- **US$2.5 billion IFCO sale complete**: ~US$1.65 billion on-market share buy-back underway, pro-rata capital return of ~US$0.3 billion subject to shareholder approval at the 2019 AGM and debt reduction complete.
- **FY20 outlook:** At constant FX and including the impact of AASB 16, Brambles expects:
  - Sales revenue growth to be at the lower end of its mid-single digit growth objective, taking into account the ongoing slowdown in global economies and the automative industry; and
  - Underlying Profit growth to be in line with, or slightly above, sales revenue growth.

Results Highlights	FY19 result	Change vs. FY18	
	(Actual FX)	(Actual FX)	(Constant FX)
Statutory basis			
Sales revenue (continuing)	US$4,595.3m	3%	7%
Operating profit (continuing)	US$740.9m	(5)%	-
Profit after tax (continuing)	US$454.1m	(18)%	(13)%
Basic earnings per share (continuing)	US28.5¢	(18)%	(13)%
Discontinued operations	US$1,013.6m		
Profit after tax	US$1,467.7m	112%	120%
Basic earnings per share	US92.1¢	112%	119%
Final dividend per share	AU14.5¢		
Non-statutory basis – continuing operations			
Underlying Profit	US$803.7m	(3)%	2%
Cash Flow from Operations	US$431.8m	US$(293.0)m	
Free Cash Flow after dividends	US$(89.6)m	US$(292.0)m	
Underlying Profit after finance costs and tax	US$507.9m	(3)%	2%
Underlying earnings per share	US31.9¢	(3)%	2%
Return on Capital Invested (ROCI)	19.5%	(0.6)pts	(0.6)pts

Note: The variance between actual and constant FX growth rates reflects the strengthening of Brambles' reporting currency, the US dollar, relative to other operating currencies, particularly the euro and Australian dollar.

[1] A non-statutory measure that represents profit from continuing operations before finance costs, tax and Significant Items.
[2] Underlying Profit divided by the 12-month average of capital invested; capital invested is calculated as net assets before tax balances, cash and borrowings, but after adjustments for pension plan actuarial gains or losses and net equity adjustments for equity-settled share-based payments.
[3] Subject to Brambles' cash requirements.

Sales revenue of US$4,595.3 million increased 7% at constant currency. Volume growth of 4% was largely driven by expansion with new customers in the European and US pallets businesses. Like-for-like volume growth moderated in the second half of the year, particularly in the European pallets and automotive businesses. Pricing growth was strong at 3% reflecting Group-wide pricing initiatives in response to input-cost inflation and other cost-to-serve increases.

Underlying Profit of US$803.7 million increased 2% at constant currency, driven by a strong revenue contribution to profit and supply chain efficiencies offset by ongoing cost challenges in CHEP Americas and input-cost inflation particularly in transport, labour and property. In North America, cost increases were largely driven by changes in retailer and customer behaviour, inefficiencies associated with US network capacity constraints and the transition from stringer to block pallets in Canada. In Latin America, profitability was impacted by the increased cost to recognise a higher risk of loss in the region and additional overheads to support a new asset management framework focused on increased collections, improved asset controls and the active reduction in flows to high-risk areas of the supply chain.

Operating profit from continuing operations of US$740.9 million was flat to prior year, as Underlying Profit growth was offset by a US$15.4 million increase in Significant Items. The increase in Significant Items reflected US$42 million of IFCO-related costs and a US$21 million expense in Latin America associated with assets transferred to higher-risk parts of the supply chain in prior years, which are now considered to be at risk of being irrecoverable. IFCO-related items included organisational restructuring costs of US$8 million, a provision for asset write offs of US$22 million and early debt repayment costs of US$12 million associated with the US$500 million US 144A April 2020 bond which was repaid in July 2019. Interest savings and cash outflows relating to this early repayment will be recognised in FY20.

Profit after tax from continuing operations of US$454.1 million decreased 13% at constant currency, as tax expense increases offset lower net finance costs. Tax expense increased US$76.5 million largely reflecting the cycling of the one-off US$65.2 million non-cash tax benefit in FY18 associated with US tax reform. Net finance costs decreased US$14.9 million, reflecting the 2018 refinancing of a maturing EMTN at a lower coupon rate and a reduction in debt balances following the divestments of HFG, CHEP Recycled and IFCO.

Profit after tax (including discontinued operations) of US$1,467.7 million increased 120% on the prior year at constant currency, largely due to the recognition of the US$945.7 million post-tax gain on the sale of IFCO which has been recognised in discontinued operations.

Return on Capital Invested remained strong at 19.5% notwithstanding higher capital expenditure to support volume growth across the Group, accelerated investment in US supply chain programmes and Brexit-related retailer stocking.

Cash Flow from Operations of US$431.8 million decreased US$293.0 million reflecting the US$150 million cash inflow in FY18 relating to the repayment of the HFG shareholder loan and incremental investment in US supply chain programmes of US$56 million which was funded by FY18 asset actions. The balance of the decline was driven by the reversal of FY18 working capital timing benefits and higher capital expenditure to fund strong volume growth and Brexit-related impacts.

2019 full-year dividend

As communicated at the 1H19 result, Brambles has maintained its progressive dividend policy for the 2019 Final Dividend. The Board declared a 2019 Final Dividend of 14.5 Australian cents per share which is in line with both the 2019 Interim and 2018 Final dividends. Given the ongoing on-market share buyback which commenced following the sale of IFCO, Brambles has suspended its Dividend Reinvestment Plan.

Following a one-off franking increase for the 2019 Interim Dividend to 65%, franking for the 2019 full-year dividend will return to historic levels of 30%. The unfranked component of the interim dividend is conduit foreign income. Consequently, non-resident shareholders will not pay Australian dividend withholding tax on this dividend. The 2019 full-year dividend is payable on 10 October 2019 to shareholders on Brambles' register at 5.00pm on 12 September 2019. The ex-dividend date is 11 September 2019.

IFCO sale and capital management programme

In May 2019, Brambles completed the sale of its IFCO RPC business. Gross proceeds of US$2.5 billion will be used to fund the following capital management initiatives:

- On-market share buy-back of approximately US$1.65 billion which commenced in June 2019. Brambles will seek shareholder approval at the 2019 Annual General Meeting (AGM) to extend the buy-back. Subject to trading and operating conditions Brambles expects to complete the on-market share buy-back in FY21;
- Pro-rata cash return of 29 Australian cents per share which will equate to approximately US$0.3 billion subject to the number of shares outstanding on the record date. The cash return comprises two components: a capital return of 12 Australian cents per share which is subject to shareholder approval at the 2019 AGM; and a special dividend of 17 Australian cents per share. Details of the record date for the cash return components will be provided to the market at a later date; and
- Net debt reduction of approximately US$0.4 billion to maintain leverage levels in line with Board-approved credit policies and support Brambles' investment grade credit ratings.

On 5 July 2019, Brambles used proceeds from the sale of IFCO to repay a US$500 million US 144A bond maturing in April 2020 with related interest cost savings to be realised in FY20. The balance of proceeds has been placed in Australian term deposits and cash management accounts. These cash balances will be progressively drawn down to fund the pro-rata cash return and on-market buy-back.

Dividend policy and capital structure review

Following the completion of the IFCO sale, Brambles undertook a review of its dividend policy and capital structure. In accordance with the outcomes of this review, Brambles will move to a payout-based ratio dividend policy commencing with the 2020 interim dividend. The policy will target a payout ratio in the range of 45-60% of Underlying Profit after finance costs and tax, subject to Brambles' cash requirements. Dividends will be declared in US dollars and converted and paid in Australian dollars.

In addition, Brambles will seek to maintain a capital structure which supports its current investment grade credit ratings of BBB+ from Standard & Poor's and Baa1 from Moody's Investors Services.

Brambles believes this capital structure and payout ratio dividend policy is optimal for supporting future growth and shareholder returns while still maintaining a strong investment grade balance sheet and credit profile.

CEO Commentary

Commenting on the FY19 results Brambles' CEO, Graham Chipchase said: "We delivered a solid FY19 result in a challenging economic and operating environment. Sales revenue momentum was strong, with growth of 7% exceeding our mid-single digit revenue growth objective. During the Year, our teams balanced price realisation with impressive volume growth notwithstanding strong competition in every market and a moderation in like-for-like volumes in line with the slowdown in most major economies and the global automotive industry.

"Underlying Profit growth of 2% was achieved despite the inflationary environment and the continuation of broader cost challenges in our CHEP Americas segment. Despite a moderation in the rate of transport and lumber inflation increases, price realisation continued to lag input cost increases during the Year. We anticipate this dynamic to persist into FY20 given industry expectations for ongoing transport, labour and property inflation.

"In CHEP Americas, the rollout of our US margin improvement initiatives, including the accelerated automation programme, is progressing well. We continue to expect these initiatives to help offset cost pressures from network capacity constraints and changes in customer behaviour to deliver progressive margin improvement over the next three fiscal years.

"In response to the higher cost-to-serve in Latin America, we have transformed pricing to better reflect the cost to serve, strengthened leadership in the region and implemented a more comprehensive approach to asset collections and asset management. We are already seeing early signs of improvement in the business and ongoing benefits are expected as we continue to roll out new pricing and asset management initiatives.

"Despite delivering positive Free Cash Flow over the combined FY18 and FY19 period, we see further opportunities in asset efficiency across the Group to support our objective of consistently generating sufficient cash flow to fully fund dividends and investments in the business. Free Cash Flow generation remains a top priority for us and we continue to drive various initiatives across the Group to ensure we deliver asset efficiency improvements."

Commenting on the sale of IFCO, Mr Chipchase added: "With the sale of IFCO, we have taken the critical step of refocusing on our core CHEP business. As we look to the future, we have an opportunity to set a new ambitious direction for Brambles as a focused and streamlined business. Using our network advantage and unmatched supply chain expertise, we are well positioned to lead industry initiatives to solve shared challenges and drive real value for our customers as they navigate a rapidly changing environment that requires increasingly innovative, sustainable and cost-effective solutions. With solid foundations in place, we are passionate about innovating our service offering and transforming how we operate to improve the customer experience and drive a step change in efficiency across our operations. This evolution is critical to shaping our future in the 2020s and beyond."

Outlook

The Group expects to deliver sustainable growth and returns well in excess of the Company's cost of capital, underpinned by the following financial objectives:

- Sales revenue growth in the mid-single digits, primarily driven by growth with existing customers, the ongoing conversion of new customers to pooled solutions and expansion across geographies;
- Underlying Profit growth in excess of sales revenue growth through-the-cycle, driven by the progressive delivery of operational, organisational and capital efficiencies; and
- The delivery of strong Return on Capital Invested and sufficient cash generation to fund growth, innovation and shareholder returns.

FY20 expectations:

Commenting on the FY20 operating environment, Mr Chipchase said: "Volatile global trading conditions and political instability which have led to a slowdown in organic growth in core European markets such as the UK, France and Germany in FY19 are expected to continue. Similarly, the contagion effect of the US-China trade war has the potential to lead to a broader slowdown in global underlying economies in FY20.

Mr Chipchase added: "While competition remains rational in most markets, the retail landscape continues to evolve and challenge our customers' established business models, leading to additional demands upon suppliers. At the same time, while industry expectations around broader inflation expectations vary, we anticipate sustained inflationary pressures in labour, transport and property in core markets such as the United States and Europe".

Within this context, Brambles' expectations for FY20, which include the impact of AASB 16, are as follows:

- Sales revenue growth to be at the lower end of its mid-single digit growth objective, at constant FX, taking into account the ongoing slowdown in global economies and automotive industry;
- Underlying Profit growth in line with, or slightly above, sales revenue growth, at constant FX;
- Effective Tax Rate of approximately 30%; and
- Net interest expense of ~US$90-$100 million.

Further Information

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Brambles Limited (ASX: BXB) Under the CHEP brand Brambles helps move more goods to more people, in more places than any other organisation on earth. Its pallets, crates and containers form the invisible backbone of the global supply chain and the world's biggest brands trust Brambles to help them transport their goods more efficiently, sustainably and safely. As pioneers of the sharing economy, Brambles created one of the world's most sustainable logistics businesses through the share and reuse of its platforms under a model known as 'pooling'. Brambles primarily serves the fast-moving consumer goods (e.g. dry food, grocery, and health and personal care), fresh produce, beverage, retail and general manufacturing industries. The Group employs more than 10,000 people and own approximately 330 million pallets, crates and containers through a network of more than 750 service centres. Brambles operates in approximately 60 countries with its largest operations in North America and Western Europe. For further information, please visit www.brambles.com

Forward-Looking Statements: Certain statements made in this release are "forward-looking statements" – that is, statements related to future, not past, events. Words such as "anticipates", "expects", "intends", "plans", "believes", "seeks", "estimates", and similar expressions are intended to identify forward-looking statements. These forward-looking statements are not historical facts, but rather are based on Brambles' current beliefs, assumptions, expectations, estimates and projections. Forward-looking statements are not guarantees of future performance, as they address matters that are uncertain and subject to known and unknown risks, uncertainties and other factors that are beyond the control of Brambles, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Brambles cautions shareholders and prospective shareholders not to place undue reliance on these forward-looking statements, which reflect the views of Brambles only as of the date of this release. The forward-looking statements made in this release relate only to events as of the date on which the statements are made – Brambles will not undertake any obligation to release publicly any revisions or updates to these forward-looking statements to reflect events, circumstances or events occurring after the date of this release, except as may be required by law or by any appropriate regulatory authority.

Brambles

Background Information

(US$m)	1H19	2H19	FY19	1H18	2H18	FY18
Sales revenue						
CHEP Americas	1,140.8	1,147.0	2,287.8	1,097.4	1,081.9	2,179.3
CHEP EMEA	931.4	917.7	1,849.1	887.2	928.7	1,815.9
CHEP Asia-Pacific	228.9	229.5	458.4	238.1	237.0	475.1
Continuing operations	2,301.1	2,294.2	4,595.3	2,222.7	2,247.6	4,470.3
Underlying EBITDA						
CHEP Americas	294.4	261.2	555.6	310.9	268.5	579.4
CHEP EMEA	312.7	305.1	617.8	304.1	308.1	612.2
CHEP Asia-Pacific	81.8	85.2	167.0	84.9	79.0	163.9
Corporate	(22.0)	(30.4)	(52.4)	(23.7)	(41.4)	(65.1)
Continuing operations	666.9	621.1	1,288.0	676.2	614.2	1,290.4
Depreciation of property, plant and equipment						
CHEP Americas	120.7	125.1	245.8	115.7	118.2	233.9
CHEP EMEA	83.8	89.2	173.0	80.0	84.5	164.5
CHEP Asia-Pacific	24.3	23.8	48.1	25.6	25.9	51.5
Corporate	0.4	0.5	0.9	0.4	0.3	0.7
Continuing operations	229.2	238.6	467.8	221.7	228.9	450.6
Amortisation of intangibles						
CHEP Americas	5.5	5.9	11.4	5.2	5.7	10.9
CHEP EMEA	1.6	1.4	3.0	1.3	0.8	2.1
CHEP Asia-Pacific	0.3	0.3	0.6	0.4	0.3	0.7
Corporate	0.8	0.7	1.5	-	-	-
Continuing operations	8.2	8.3	16.5	6.9	6.8	13.7
Underlying Profit						
CHEP Americas	168.2	130.2	298.4	190.0	144.6	334.6
CHEP EMEA	227.3	214.5	441.8	222.8	222.8	445.6
CHEP Asia-Pacific	57.2	61.1	118.3	58.9	52.8	111.7
Corporate	(23.2)	(31.6)	(54.8)	(24.1)	(41.7)	(65.8)
Continuing operations	429.5	374.2	803.7	447.6	378.5	826.1
Operating profit						
CHEP Americas	168.2	93.1	261.3	188.1	106.2	294.3
CHEP EMEA	227.3	203.8	431.1	221.5	221.3	442.8
CHEP Asia-Pacific	57.2	61.1	118.3	58.8	52.6	111.4
Corporate	(28.7)	(41.1)	(69.8)	(25.5)	(44.3)	(69.8)
Continuing operations	424.0	316.9	740.9	442.9	335.8	778.7
Capital expenditure on property plant and equipment (accruals basis)						
CHEP Americas	264.6	286.5	551.1	237.6	275.1	512.7
CHEP EMEA	250.4	193.1	443.5	204.2	224.4	428.6
CHEP Asia-Pacific	32.8	32.3	65.1	33.3	37.6	70.9
Corporate	0.6	0.1	0.7	0.5	(0.2)	0.3
Continuing operations	548.4	512.0	1,060.4	475.6	536.9	1,012.5
Cash Flow from Operations						
CHEP Americas	70.0	100.4	170.4	91.9	127.2	219.1
CHEP EMEA	65.8	162.2	228.0	114.7	196.0	310.7
CHEP Asia-Pacific	35.9	65.2	101.1	45.5	65.3	110.8
Corporate	(33.8)	(33.9)	(67.7)	(19.5)	103.7	84.2
Continuing operations	137.9	293.9	431.8	232.6	492.2	724.8

Brambles

Background Information

(US$m)	1H19	2H19	FY19	1H18	2H18	FY18
Average Capital Invested						
CHEP Americas	1,905.8	1,979.4	1,942.6	1,877.3	1,916.7	1,897.0
CHEP EMEA	1,736.9	1,815.9	1,776.4	1,633.0	1,746.4	1,689.7
CHEP Asia-Pacific	423.1	425.9	424.5	438.2	437.4	437.8
Corporate	(16.0)	(9.8)	(12.9)	129.9	51.9	90.9
Continuing operations	4,049.8	4,211.4	4,130.6	4,078.4	4,152.4	4,115.4
Return on Capital Invested						
CHEP Americas	17.7%	13.2%	15.4%	20.2%	15.1%	17.6%
CHEP EMEA	26.2%	23.6%	24.9%	27.3%	25.5%	26.4%
CHEP Asia-Pacific	27.0%	28.7%	27.9%	26.9%	24.1%	25.5%
Continuing operations	21.2%	17.8%	19.5%	21.9%	18.2%	20.1%
Pooling capital expenditure to sales ratio						
CHEP Americas	19.6%	20.8%	20.2%	19.8%	23.0%	21.4%
CHEP EMEA	25.7%	19.8%	22.8%	21.9%	21.6%	21.8%
CHEP Asia-Pacific	12.6%	11.1%	11.8%	13.0%	13.2%	13.1%
Continuing operations	21.4%	19.4%	20.4%	19.9%	21.4%	20.7%
Number of pallets, RPCs and containers – net, after Irrecoverable Pooling Equipment Provision (millions of units)						
CHEP Americas						
– Pallets	140		140	142		139
– Other	1		1	1		1
Total CHEP Americas	141		141	143		140
CHEP EMEA						
– Pallets	134		134	125		126
– Other	22		23	18		20
Total CHEP EMEA	156		157	143		146
CHEP Asia-Pacific						
– Pallets	25		25	23		24
– Other	7		6	6		6
Total CHEP Asia-Pacific	32		31	29		30
Total	329		329	315		316
Number of pooling equipment purchases (millions of units)						
CHEP Americas						
– Pallets	11	16	27	11	12	23
– Other	-	-	-	-	-	-
Total CHEP Americas	11	16	27	11	12	23
CHEP EMEA						
– Pallets	15	10	25	14	11	25
– Other	2	2	4	1	3	4
Total CHEP EMEA	17	12	29	15	14	29
CHEP Asia-Pacific						
– Pallets	1	1	2	1	1	2
– Other	1	-	1	-	1	1
Total CHEP Asia-Pacific	2	1	3	1	2	3
Total	30	29	59	27	28	55