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Raluca Chiriacescu: Good morning everyone. This is Raluca Chiriacescu from Brambles Investor Relations team speaking. Thank you for joining us at short notice for a briefing on our first-half trading update. I am joined on the call today by Brambles CEO, Tom Gorman, and CFO, Nessa O'Sullivan. We will open the lines for Q&A in a short while so please be reading with your questions.

Before handing over to Tom, I would like to remind you that we are currently in blackout pending finalisation of our half-year results. In light of this, we are limited in the information we can provide, particularly as it relates to outlook and our performance expectations for the balance of the year. We will be providing more details about our half-year performance and updated guidance for the full year on 20 February when we formally announce our half-year results.

I will now hand over to Tom.

Tom Gorman: Well thank you very much Raluca and welcome everyone. We appreciate you joining the call at such a short notice.

Now earlier this morning we announced to the ASX that based on preliminary unaudited accounts for the six months ended 31 December 2016 we now expect constant currency sales revenue grow of approximately 5% and underlying profit growth of approximately 3%. While at the Group level this result is well below our expectations, it is important to note that we delivered sales revenue growth in every operating segment, and with the exception of North America, we delivered underlying profit growth across the Group.

Our pallets North America business experienced some revenue and cost challenges which really fell into three broad categories. Firstly, in the US market we saw signs of retailer destocking particularly in the backend of the half-year period. As many of you can appreciate, destocking not only impacts issue volumes but also results in higher levels of pallets being returned which drives increased transportation and plant costs in the period when they are returned.

Secondly, in our pooled pallets business in North America the trend of customer conversion delays that we noted in our first quarter trading update continued into the second quarter. We were expecting to sign some of these customers during the second quarter. Now despite these delays, we continue to have a very good pipeline of new business and we are in continuing discussions with potential customers in the region.

The third and last issue we faced is in our recycled pallets business which experienced pricing pressure during the half.

Now in our release today we also noted that the HFG joint venture continues to operate in challenging market conditions. It should be noted that the HFG joint venture is really still in its infancy with a number of initiatives which are yet to be implemented. In the first half we expect to report a small loss relating to our share of HFG. Based on recent performance of the joint venture, an impairment review of our investment in HFG is in fact underway.

In light of this first half performance, it's disappointing for me to say that we expect constant currency sales revenue and underlying profit growth for the full year ending 30 June 2017 to be below our current guidance range, and to remind you our initial guidance was for sales revenue growth of between 7% and 9% and underlying profit growth of between 9% and 11%.

Now while I appreciate it is frustrating that we have not provided you with updated full-year guidance at this time, we feel it prudent to wait for the final audit review of our half-year results and also to get a full read of our January trading before providing updated outlook for the rest of financial year 2017.

Now in closing, I would like to add that the fundamentals of our business remain strong and I would also like to reiterate that we have delivered sales revenue growth in every operating segment, and with the exception of our pallets North America business, we delivered underlying profit growth across the Group.

I can assure you that the Brambles team remains committed and dedicated to driving improvement actions in the second half of this financial year.

I would like to thank you all again for joining us at such short notice this morning. Before I open for Q&A I would like to remind you that we do remain in a blackout pending the finalisation of our half-year results, and I am limited in the information that I can provide, particularly as it relates to outlook and our performance expectations for the balance of the year.

I would now like to open for Q&A. Thank you.

Operator: Thank you Mr Gorman. Ladies and gentlemen if you do wish to ask a question please press star one on your telephone and wait for your name to be announced. If you do wish to cancel your request you may press the pound or hash key.

Our first question comes from the line of Simon Mitchell from UBS. Please ask your question.

Simon Mitchell: (UBS, Analyst) Good morning. Tom, just focusing on the revenue issue, so based on the 5% revenue growth you've given us today for the first half, it looks like the December quarter was only up about 3% versus the September quarter up about 7%. I know you've said every division still grew, but can you give us any more granularity on the regional makeup of that growth?

Tom Gorman: Yes, Simon, thanks again for the question and thanks for joining us. The answer is that we will give quite a bit more granularity when we come to February. It's a little bit awkward for us at the moment because we are in a blackout, but come February we'll be able to walk you through, as we typically do, each of the operating segments and their performance in the half.

As we said, we did get growth in every operating segment. The issues that we have identified specifically in North America, which we did identify in our first quarter update, it has been just a delay in converting in the US. We do not believe that we have lost any business to any competitors, so the business is out there for us to win, but the dynamics of the market are such at the moment that it's taking a little bit longer for our customers to come to a decision point. So it has been more of a deferral if you will - those are the words we've tried to use here - as opposed to any loss in business.

But again, Simon, we'll walk you through that in great detail as we typically do in the earnings release on 20 Feb.

Simon Mitchell: (UBS, Analyst) Okay, and what do you put that deferral down to? I mean it just seems at odds with what we see as a reasonably positive backdrop to sentiment in the US at the moment.

Tom Gorman: Yes, it's interesting when you really dive into the sentiment in the US so let me - you've asked two questions. In terms of what have we seen in the US, this is actually something that we do. We see a number of our

FMCG or CPG customers in the US now working with third parties, really working with procurement agencies, in the same way that we do when we go out and work with our suppliers, and that is taking a bit more time to reach a decision.

The team has really seen that there's a lot more analytical work being done by our potential customers before coming to a decision, and in all cases there's still a choice. There's a choice in the pooling area and obviously there's a choice to stay with white wood. So I think the dynamic from that end has changed a bit in the more recent past and we're dealing with that.

As I said, the pipeline itself is still robust for us but it has been frustrating here and as well for the team on the ground. We just haven't been able to get our customers over the line yet, but we'll continue to push hard on that. We'll give you more granularity when we come to February.

I would also add that in terms of the comments around GDP growth in the US, I actually think you're correct, but again you have to remember what drives our business and our customer set in terms of our own growth. So if you look at the GDP numbers in the US through '16 they were strong. A lot of that was powered by the automotive industry. Automotive had a record or near record year in the US, but if you look at non-durables the things that we really move for our customers, we're actually seeing those data beginning to decline in terms of overall demand.

We'll have the benefit of understanding January trading when we come out in February so we'll give you a little bit more insight to that at the appropriate time.

Simon, I think you would definitely remember this from previous conversations, but we showed you last year a chart where we were looking at retail inventories growing. We talked about that a fair bit and I mentioned at the time you could have three different things could come of that; (1) is indications of a high consumption pattern (2) is indication that retailers just want to have higher service levels so we're going to hold the higher level stock and (3) is that look it was an anticipation of demand that just hasn't come.

I don't want to say which one of those it is yet. We still want to analyse our own trading and then look at January, but on the face of it when we see destocking, what that really means is that forward expectations for demand are declining. So some of that build in inventory is now coming down and that's what we've experienced really at the backend of December.

Simon Mitchell: (UBS, Analyst) Just lastly, Tom, given you were investing heavily during the 2016 year in the pallets or particularly in the US I think you increased the pool by about 9% in the expectation of a restocking trend which now seems to have turned into destocking, are there measures afoot to reconsider CapEx for this year?

Tom Gorman: Look absolutely. I think I - and again Simon you would know this because you've been around for a while - I would just remind everybody that in the United States, in fact across all of our pallet businesses, we are no longer contractually committed to deliver new pallets to anyone so the business has flexibility. So when we look at the ebb and flow of demand we can react to that.

Now, Simon, clearly we don't react to it in the minute or even in the month and we're in a position here where, as I indicated, the funnel, the demand funnel, is still pretty robust. So we're trying to strike this balance to make sure we're positioned well should we win that business and then need the pallets at the backend of the financial year versus carrying too much inventory.

But there are some effects that occur in the period which I've tried to allude to, and again you'd be familiar with these. When the pallets come back we repair them, so you get the repair cost in the first half, but the revenue associated with those pallets going out doesn't come to one of the future periods. So some of it is in fact timing and some of it is real cost that will not be recovered in the future.

We really want to complete our analysis there, Simon, and then we'll be in a position to give you a really good insight of what our expectations are.

Simon Mitchell: (UBS, Analyst) Okay, thank you.

Tom Gorman: Thank you, Simon.

Operator: Your next question comes from the line of Anthony Moulder from Citigroup. Please ask your question.

Anthony Moulder: (Citigroup, Analyst) Good morning all. Just a question for Tom on destocking. I guess the question is has that rate of destocking occurred particularly quickly given that obviously you were reaffirming guidance given back at the AGM on 16 November?

Tom Gorman: Yes, well it has, Anthony, to be blunt. Yes, it has and particularly a very weak backend of the half as we said publicly in the statement and even more specifically in December. I would say that the guidance that we provided in November you should just be aware that that was really trading through October. So at the time when we gave that guidance we had four months in hand and we still were confident in our ability to deliver the full year, so some of these adjustment that we're now citing really were driven by the backend of the half as we've said.

The other thing - look I would remind you we have now been giving guidance since financial year '11 and I think the market has gotten very comfortable with us delivering against that guidance, and in some ways you might think it's an easy thing for us to do. I would remind you that the range in the guidance that we give is quite tight. I mean it's less than 2% of our profits - the $1.055 billion to $1.075 billion - and we came into the year with quite a bit of momentum and we felt that we could really deliver that level not just of top line growth but of underlying leverage, underlying profit leverage.

What we're doing today as we have always done we have been as candid and direct with the market as we can be and recognising that some of the costs that occurred in the period are just not going to be recovered in the full year. This issue on delay of our customer conversions that has been a challenge for us. We identified that early and we really want to see how much we can drive that through the trading in January.

Anthony Moulder: (Citigroup, Analyst) Just into January then, is it fair to assume that some of destocking is continued through second half?

Tom Gorman: Yes. Look in terms of January it's still very, very early for us. I don't want to get too much into the details here, but January for us is a five week month. We operate our quarters on a basis of five, four, four, so it's a very long month for us in that effect.

Also the timing of the holidays this year is quite different than the timing of the holidays last year, so we don't yet - we really just have two weeks of trading in hand. I think it would be premature for us to draw any conclusions, Anthony, at this point in time, but I assure you that when we come in February, we will follow the standard practices of telling you everything and giving you our insights into what the market is actually doing. But having the benefit of January trading is very important to us, given what we saw at the backend of December.

Anthony Moulder: (Citigroup, Analyst) Understood, thank you.

Tom Gorman: Thank you.

Operator: Your next question comes from the line of Paul Butler from Credit Suisse. Please ask your question.

Paul Butler: (Credit Suisse, Analyst) Hi guys. Hey just a question on the destocking. I mean from your conversations with customers do you have a view at all as to if this has just been a one-off in the last couple of months or we expect this to continue to play out over some period of time? Also based on that, given this is a significant change, are there any particular decisions that you're looking at making with the business to - changes to try and address some of these issues?

Tom Gorman: Yes. Well both are very good questions. So look first of all I think that we have both anecdotal information, so customer conversations, and as you would know, our directors are also - a number of our directors are actively involved in the CPG or FMCG space, particularly George Zoghbi who sits on our Board from Kraft Heinz. So we have good anecdotal and good market based information.

What we don't have yet completely are the results from our customers in the US for calendar fourth quarter, so we do need to go through those data. We should get that through the month of January, and I must say that not all of our customers produce a level of regional granularity that's going to answer every one of these questions, but again we will dig as we always do through that and through customer conversations through the month of Jan.

The thing that we do have, however, is we do have the published data from the market in the United States. Now that only runs through the third quarter at the moment, and that's where I was referring to what's going on with non-durables versus durables in the US. Those data should be published for us in the coming several weeks so by the time we come out on 20 Feb I think we'll have both customer insights to share, as well as the reported market data, which would give you some insight into what's happening in the US demand.

Paul Butler: (Credit Suisse, Analyst) Okay, and what can you do about the cost issue if it's partly being driven by the destocking and you're getting back more pallets than you need? Can you defer some of the repair? I mean if you're not needing to sell the pallets -

Tom Gorman: Let me be very, very, very clear on this. Everything that we do is driven by the customer so every single thing that we do in the United States is driven by the customer. So the fact that our costs are up we would never short-change the customer as it relates to quality or the efficacy of our repairs. So nothing is being done in the US to put at risk any of our quality delivery to our customers. In fact, I'm enormously proud of our team for that very fact. This is not about short-changing the customer to deliver a near term financial outlook. We have never done that under my tenure and we will not do it as long as I'm sitting here. So look we're taking it on the chin for that issue.

What we can do is what was alluded to earlier and that has less to do with the income statement and has more to do with the balance sheet, and that is really managing our capital expenditures over the period. So when destocking occurs our control ratio goes up. What that means is that we're getting back more than we're sending out as a percentage. So as that happens we then look at our forward plans, our S&OP plans, to decide what our appropriate level of capital expenditure should be.

Also as I alluded, Paul, for Simon, it is challenging at the moment because we still have a robust pipeline of potential customers, so what we don't want to be is in a position if we were to win that business to be short. So for a short period of time you carry a little bit of excess inventory and there are a number of ways that a destocking hits your income statement in terms of costs in the period.

Some of these, as I said, will reverse themselves in the future but some of them will not be recovered because they occurred in the period, and even if they don't repeat going forward, you're not going to get back the money spent in the second quarter of the first half.

So we are focused very intently on our capital expenditures but we are doing nothing in terms of adjusting our quality delivery to our customers. What we commit to is what we're delivering.

Paul Butler: (Credit Suisse, Analyst) Okay. If I could just have one more. You've cited pricing pressure in the recycle business. I'm just wondering whether this is partly related to some of the deferred decisions you've seen of conversions to pool. I mean obviously if customers are looking at going from white wood to pooled and then the price of white wood is coming down they might reconsider that.

Tom Gorman: Yes, Paul I think that -

Paul Butler: (Credit Suisse, Analyst) Is that potentially an issue?

Tom Gorman: Paul, I think that is very insightful. I think that look the market does an arbitrage daily right. That's not how this works. When they make a decision they stick with that decision, and as you know when we were seeing white wood prices increase - and look within our business we were driving that on the recycle side - we've always said that in the long run that's actually good for pooling.

This period now where white wood prices are coming down, that is potentially one of the anecdotal reasons that some of the conversions from white to blue are just stepping back to see where the market is and really wants to go. It's interesting and we will share this data in February, but as you know, we also look at wood prices in the United States and keeping a close eye on that is important because over time that works itself into white wood pricing as well. So, we'll share all that data with you in February and try and get a better idea of how much of this white wood is really causing these delays and decisions.

Paul Butler: (Credit Suisse, Analyst) Just on the recycle, the pricing pressure you see there, do you have a view on whether it's weaker demand or too much supply coming in?

Tom Gorman: Look initially generally our experience what happens in the white wood space, it really is a commodity market. So, it's supply and demand driven. At the moment, I would say that you're probably in a position of excess demand, and that's driving price down.

Paul Butler: (Credit Suisse, Analyst) Sorry I didn't follow.

Tom Gorman: I apologise. Excess supply. I misspoke. I apologise. Excess supply was driving price down. Apologies.

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

Tom Gorman: The second one was the actual comment.

Operator: Ladies and gentlemen, just a reminder that if you would like to ask a question it is star one on your telephone. Our next question comes from the line of Scott Ryall from CLSA. Please ask your question.

Scott Ryall: (CLSA, Analyst) Hi there. Thank you. Look, I was wondering, sorry it's a bit of an extension perhaps of two of the questions, but you guys get management accounts every month towards the middle of the month and there was no need to make this statement a month ago, can you just give me a sense of what's happened in December that's changed the outlook quite significantly from when the AGM which presumably had the October management account for that one.

Then secondly, and perhaps within that you can comment about the fact that historically Tom, you said that the guidance was given because on a rolling 12-month basis you had a reasonably high degree of predictability on the

business, and obviously the first half result is quite some deviation from the guidance that you've given. If we start there and my other question is about HPG, so it's separate.

Tom Gorman: Look, to start with I think that we will give you a lot more visibility when we come out in February, so you'll see the building blocks of what's driving performance in the Americas and we will talk about this as we typically do. I think what I've said I'll repeat for you Scott, what I've said already, is that we did see a significant amount of this destocking come in the month of December.

So, I don't want to paint a picture other than what it was. So, we did see very very significant destocking in the month of December. You're right to point out that we have fairly good management systems here so we see an accurate sales revenue. I get the data here every week and I have to say that the back end of December demand fell, and fell significantly. This is, I don't want to give you a calendar review, but also where the holidays fell this year and how that impacts January also is quite different this year. So, the number of trading days in January versus January last year, and December versus December last year.

I think we will get the benefit of looking at December and January together and then we will have a better assessment and be able to communicate that of the trend that we really saw. So, look our business should be predictable. I agree with you and that's how we have been such a strong business and such a strong company in delivering guidance and sticking to that guidance. But, these are market events that we just did not anticipate. This was very unexpected for us to see this level of decline.

I have to say that I have been pointing this out to the market for some period of time, particularly when we saw the growth in retailer inventories. Well, that growth is now coming down and that has an impact on our pallet balances, and it has an impact, you know destocking does affect us in the short to medium term and then we adjust out CapEx going forward. So, you're seeing that here.

I think the integrity that Brambles has as a company is that as soon as we have reasonable confidence that our forward-looking statements are inaccurate, we have an obligation as an ASX listed company to be completely open and give you and the market a sense that we are not going to get to the guidance range that we provided.

Again, I would just remind you that you must know this couldn't come at a worst possible time for me personally. I mean I have worked hard to provide market guidance every year since I've been here, and we've taken great pride in that. We would be doing, and you should assume we are doing everything that we can, as I've mentioned in our stated comments, and in our market at least, to drive our business aggressively in the second half. But we're simply not going to get there now, and it's our obligation, and it's also part of our ethos here to communicate that clearly to the market. So, that's what happened. Very weak December.

Scott Ryall: (CLSA, Analyst) Sorry, you made a comment there about you've been making a number of comments, I think it was about the potential impact of destocking and restocking and things like that. Can you be a bit more explicit about the comments you've been making regarding that? Is that just around the risk on what's happened if the US retailers destock. And just maybe answer that with respect to the fact that you're CapEx has been reasonably elevated as Simon pointed out in the US business in particular over the last 12 months.

Tom Gorman: I think you have to remember, and you've asked a couple of questions there. As it relates to CapEx you have to recognise that we had strong growth last year in the United States, and we were driving that CapEx to support that growth. We also came into the year assuming that we were going to have strong top line growth again. So, you have to position yourself for the demand that you anticipate. That's where we are. We were positioned both to support the growth that we achieved in the US, and to support the growth that we anticipated coming in FY17.

Two things happened. That growth has been deferred. We've not won the business yet. At the same time, we've seen a destocking from the retailers. You put those two together and you're in a position where our stock levels are a bit above where we expected them to be and that drives some costs in the period. So, that's exactly what we believe has happened in December.

Now, you're second question about what I've been communicating to. Look, all of our stuff in online. You can see all of the documents. We've actually shared with the market a number of slides that show the growth in retail inventories in the United States. We actually have a slide where we just depose that growth with our own plant stock. What I said in the meetings that we've had and in the presentations, is that as we see that growth in retail stocks, one of three things is going to happen. It's either growth that will really deliver higher organic demand going forward. It's either growth that the retailers want to hold higher stocks to deliver better service levels. Meaning that they have the SKU that you want on the shelf. Or third, it's a false start. I don't want to draw a conclusion as to which one of those three it is. But what I can tell you is those retail inventories are now coming down. We have to deal with that in terms of pallets being returned to us.

Scott Ryall: (CLSA, Analyst) Alright. No fun. Then the last question I had in HPG. You've made a comment around the fact that due to its recent financial performance and impairment review of our investment in HFG is underway. Is that referring primarily to the deferred consideration that you booked at the time of the deal being done just prior to the full year result last year? Or is it in the sense that perhaps, and I think that much of your receipt of the third consideration was going to come with a refinancing [of that business] at appropriate market condition. Maybe you can give a comment around the likelihood of that refinancing in the next 12 months I'd say.

Tom Gorman: I can answer a number of those questions. First, just for the benefit of everyone else I know what you're referring to, but it's HFG. Hoover Ferguson Group. Not HPG. So, in case there are others that don't have your level of knowledge of the business, I don't want to mislead anyone. What we're actually saying here, and I think everyone understands that we equity account for HFG now. Where we show it on the balance sheet and income statement, we're actually taking the performance of the business on in an after-tax basis. That's how we account for it.

The assessment that we're doing, frankly is an assessment that we do for all of our businesses. There's nothing unique here in HFG versus any other business that we look at. When we come to each half year, we look at our businesses to make sure that the carrying value that we have for the business is in fact appropriate. When it isn't, or it is, we make a move and we step up to address that.

We've done that for all of our businesses. We continue to do it for IFCO, even though that acquisition is now some almost six years behind us. We did it for the aerospace business. We do it for the containers business, and we do it for the HFG joint venture. So, there's nothing different there. The reason that we chose to just clarify that we're doing it here, is because the nature question is, you've now seen a small loss in the half, what does that mean for the balance of the business? So, we will complete that analysis in the coming months and then as appropriate we'll communicate that to the market.

Scott Ryall: (CLSA, Analyst) Okay. Can you just remind me with respect to the holding value? Because for this one you've said there is an impairment review investment due to its recent financial performance. Can you just remind us, and sorry I'm not in front of my screen as I'm offshore, so the third consideration was a big part of that? Is it mostly around in your mind the potential for deferred consideration to be even more deferred? Or is it the more to do with the equity investment account outside of that [unclear] consideration please.

Tom Gorman: Scott, we'll go through all that detail as appropriate in February. I can tell you that the overall carrying value for us is circa $350 million. That's a combination of the equity that we hold, plus the deferred consideration. So, what we're really looking at is, what is the assessed value of the business versus what we hold on our balance sheet [assets]. It's almost that simple, but we'll go through that detail in February.

Look, I think again, just to reiterate, when we call out that a business didn't perform in line with our expectations, particularly because the HFG venture is brand new, I have to say you have to remember that this business only came together you know CCC and Ferguson only came together with Hoover a short number of months ago. There's a lot of synergies and actions that they're working on and not all of them have really been initiated yet. We want to make sure that we're doing a proper assessment and then accurately reflecting our investment in that joint venture which we will do.

The reason we called it out is because it was a small loss in the period and it does affect the overall performance of the business. We just wanted to make sure that nobody thought we wouldn't be doing that work. Perhaps we've over emphasised a bit, but again it was in a desire to be clear and transparent.

Scott Ryall: (CLSA, Analyst) No, no, your [unclear] generally is pretty transparent. Can you just confirm though, do you see that there is a potential or a likelihood that you would have to contribute further cash to that joint venture? Or do you see it as self-funding?

Tom Gorman: Look I think now, Scott, you're drawing long long, you're drawing a very long bow here on a business that's a relatively tiny percentage of our total portfolio, and it's always gotten a lot of visibility since the acquisition of Ferguson. We understand and respect that. But, we'll come to that and we'll talk about that in due course in February.

Scott Ryall: (CLSA, Analyst) So, that's a no comment. You didn't answer my question sorry. That's all.

Tom Gorman: Look, why don't we play it back when we're done. But what I said is, you're drawing a very long bow, and we're not going to get into that at this point in this discussion today until we complete the analysis. There's a fair bit of analysis that's underway. I wouldn't be doing a service to you and your readers, and I would not be doing a service to the market to make a comment recognising that the data is still preliminary and the numbers that we have, have not yet even completed. We haven't done the audit close.

We're giving you early warning and in an effort to be transparent here, I think you're digging into a set of questions which we will answer in due course, but we have to do our work and you have to give us the time and respect to discipline that we're putting forward here.

Scott Ryall: (CLSA, Analyst) Okay. Sure. Thank you.

Operator: Your next question comes from the line of Cameron McDonald from Deutsche Bank. Please ask your question.

Cameron McDonald: (Deutsche Bank, Analyst) Morning Tom. Just quick question. Just given your comments about the speed at which the destocking has occurred, do you think there's been some one-off impacts? What sort of impact do you put down as something like the election occurring? Or is any of the conversations you're having with the customer now that we've got clarity around, you know one way or another we've got clarity around the political environment in the US that they will now re-examine and implement some of those plans.

Tom Gorman: You know Cameron, that's a very interesting question and it's one, as you can imagine, that we get pretty frequently given the radical shift in the direction of the United States from the Obama administration to Trump. I think that what I can tell you we are seeing thus far and we do want to do a lot more work and look at the January trading. It sounds like that we're making a case here that you should look at two months rather than one, and in some way we are because of the timing of the holiday. But also, the data that we have through the third quarter in the US did show a fairly significant job in non-durable consumption.

As you know, kind of how our business works, we stock the shelves. That's the way our business works. We stock 30, to 60, to 90 days in advance. That stuff all gets sold through at some point right. It gets sold through. But then the follow-on demand to that gives you an indication of where is overall demand increasing or decreasing. What we can say is that we are seeing the effects of destocking. Our customers are sending pallets back to us. So, they're reducing their inventory. That did happen, as I said, in an exacerbated way towards the end of the December. So, that definitely is happening.

What's the driver of that, and whether it's a sign of confidence or lack of confidence in the US and the new administration I think it would be very difficult for me to call from here. I think it would be dangerous to pin it to that anyway. What we would rather do is stick to the facts and talk to you about what we're seeing from our customers. What's really happening in the categories that we support in the US, and what's happening specifically with our customers. Then we combine that with the government data, the official data on demand, and then I think the picture will become a lot clearer.

I think we'll be in a better spot to talk to you in February. We'll get the benefit both of the external market data, as well as additional conversations with our customers, and also seeing our customers. For most of them it will be their fourth quarter data that we'll be seeing in the US.

Cameron McDonald: (Deutsche Bank, Analyst) Thanks.

Operator: Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Our next question comes from the line of Owen Birrell from Goldman Sachs. Please ask your question.

Owen Birrell: (Goldman Sachs, Analyst) Hi Tom. You've obviously just spent a lot of time talking about the North American business. I just want to just finish off on the X North American business. I mean you mentioned that sales growth in all segments was positive and the earnings growth was positive as well. Can I just get a sense of whether that level of growth, because we always expect some of those regions to be stronger than the North American region? Can I just get a sense of whether that growth was in line with what you guys were expecting for the quarter? Or has that also had an element of weakness versus your previous expectations?

Tom Gorman: Look Owen, thanks very much for joining the call. Again, we're still with preliminary and unaudited information here, but broadly speaking the areas that we would expect to see growth, the RPC business, the containers business, XHFG. Emerging markets. We'll talk in a lot more detail about all of those come February. But broadly speaking they were in line with our expectations in the half.

Owen Birrell: (Goldman Sachs, Analyst) Okay. Thanks.

Tom Gorman: Look, I'll just reiterate what we said. We also did deliver growth in every operating segment that we had, and we delivered profit growth except for the North American business. The foundation of the business remains very very strong, and when we come to February I think you'll see that there are a number of pockets of continuing excellence in the company and there's some challenge in the North American business. That's really the summary of this.

Operator: Once again ladies and gentlemen, if you do wish to ask a question, please press star one on your telephone and wait for your name to be announced. Our next question comes from the line of Simon Evans from Financial Review. Please ask your question.

Simon Evans: (Financial Review, Analyst) Tom, you sort of touched on it just before, but in the longer term if the Trump administration carries through with its promises of a much more protectionist economy, what does that do over time to Brambles?

Tom Gorman: Simon, I think that that's probably, given the context of this call, that's probably not a conversation that I'd get engaged with you now. I think when we publish our full year results, and you see kind of the mix of our business, and the percentage of our business that's domestic versus import, I think frankly you can probably draw some conclusions from that. But, at this point in time this is really just a brief market update really focussing on our inability to deliver our commitment for the full year.

Simon Evans: (Financial Review, Analyst) You said it couldn't come at a worse time for your personally. Without dumbing it down too much, there you're referring to the fact that you're out the door at the end of February.

Tom Gorman: Yeah, look I shouldn't have said that to be blunt. This is not about me, it's about Brambles, and this is a great company. It is a much stronger company than it was seven and a half years ago, and it's going to be a much stronger company long after I'm gone. I'm personally gutted because I know that many of the guys on the phone have been working with me for a long period of time, and I never say something that we don't believe we can deliver. That's the personal, look I'm embarrassed. You can write that. I think that these guys have been close to the market for a long period of time and we put a lot of effort behind the market guidance that we give, and we are committed to it. Look, walking away from something that we thought we could deliver is embarrassing. That's really what I was referring to Simon.

Simon Evans: (Financial Review, Analyst) Thank you.

Operator: Your next question comes from the line of Sondal Bensan from BT. Please ask your question.

Sondal Bensan: (BT Investment Management, Analyst) Tom, just firstly you made some comments about the business excluding the Americas growing revenue and profit. Would you say that those businesses continue to perform consistent with the guidance that was out there, i.e., the high single digit growth? Or has that growth come down there as well, but they are still growing?

Tom Gorman: Sondal, thanks for joining the call. What I will say is that we will in fact cover that in a lot more granularity once the numbers are audited and the books have been closed, and we go through the audit committee and then we can share this stuff as we do every February. I think you'll get a chance to see that there. What I did say is that the rest of the businesses are broadly in line with expectations.

Sondal Bensan: (BT Investment Management, Analyst) Just on the Americas then specifically, you mentioned that from what you're saying it sounds like the destock has occurred most likely in the last couple of weeks of December. I mean the costs you incur when the destock occurs, and it's obviously not on the same day, I mean have all the costs of that destocking occurred in this half? Or is there a flow through that's yet to come through from that destock and given how late this seems to have occurred?

Tom Gorman: Really, I guess the best way to say it, it really accelerated in December and then peaked towards the back end of December. Without getting into the specifics of the cost buckets, I will say, and what I said earlier, I think that particularly, Sondal, you would know our business quite well, that when the assets come back we repair them when we see them. So, in that period you get the plant costs of repairing our stock. So, we have finished stock in inventory.

Once the demand comes back in the following months, you then send that stock out and what happens is you get the revenue in that period, and not the cost associated with moving that asset. That definitely is something that works its way through the system over time.

But the likely things that you don't get back is that when these assets come back, they don't always come back in the market, in the region where you want them, so there's a bit of transportation cost as we're moving assets around for

certain. Then the last bit is that there's a little bit of storage cost as well. Your balances are a bit above expectation, that means then that your storage costs are slightly higher than expectation.

Again, we'll got through that in the appropriate buckets, but some of it does work itself through in the future, but some of it does not. I mentioned that previously for one of the callers, is that that's really what the driver is in terms of our profit guidance. We're not going to recapture some of those costs that have been spent in the back end of the first half.

Sondal Bensan: (BT Investment Management, Analyst) Thanks. Just on that related destocking, I mean most retailers particularly in FMCG, I mean they're usually working off inventory days of 15 to 18 days. The ones in the US are a bit better than that. It seems unusual that destocking could last for more than two to three weeks given that you're really getting into a full grocery inventory cycle of inventory at wholesale within a supermarket retailer. I mean for it to be so abrupt that decline, I mean the retailer would have to be running inventory days of probably a week or so which you wouldn't be able to run a business on.

I'm just interested in your thoughts as to where you think retail inventory days, sales ratios are going in December. I mean obviously every December period there's a run down in inventory post-Christmas, and that happens every year, and there's a bit of a lead up prior to Christmas. I mean has anyone in the company got their head around what's actually happening to retail supply chains for this to occur?

Tom Gorman: Yeah, I think that's the benefit of us being able to have the appropriate amount of time here through January to really look at the trading patterns. As I said the trading days are quite different in December versus the prior year and quite different in January of this year versus January of 2016. So, we do want to take our time, Sondal, to really assess that and try to give the market our best assessment of really what are the physicals that are driving our performance today.

Your comment on where stocks are, however, I would just again point out the data that we have been sharing with the market, we have seen an increase in retailer inventories. It's been very clear to us and we shared that information with the market in prior releases. It is correct I think that now we have seen a bit of that coming back down. I have to say that it's not yet at the levels that we would have seen in terms of days' coverage back in 2012 and the like. But there has been a steady increase in growing retailer inventories really accelerating from the middle of the 2015 calendar year and growing as we pointed out in this data really through the early to mid-part of 2016.

In any one month you can get some aberrations, Sondal. What we're really trying to look at is trend data, and we'll share these data with you and then try to draw some conclusions from that, but also have the benefit of customer insights as well.

Sondal Bensan: (BT Investment Management, Analyst) Okay, great. I've just got one last one quickly. The point you made about the impact on new business wins or conversions, and the procurement agents that a lot of those potential customers are now using. I mean is that something that's changed in recent times in terms of potential customers using these procurement advisors and agents? I mean personally I would have thought if that was the case given the value proposition cooling brings that if anything it would aid your new sales and new business wins and conversions rather than hinder it.

Tom Gorman: Yeah, and I don't think you should draw the conclusion that either it aids or hinders. I don't think that's the conclusion. What I communicated was that it takes more time. So it stretches out the process and the level of analytical rigour might be slightly higher than it would have normally been. So look we have experience doing this on our own end. So I know that when we work with these types of procurement agents the level of analysis is increased. Then - so I wouldn't draw a conclusion that it either helps or hurts us. All I was really referring to was that anecdotally this could be one of the reasons for the delay in conversion.

Sondal Bensan: (BT Investment Management, Analyst) Right, but it's something that you've only seen recently. Has it changed?

Tom Gorman: No, look I think when we were looking at what are the potential drivers of the deferral, there are a number of potential drivers. I've alluded to two - whitewood prices as well as this. But no I wouldn't draw too much of a conclusion other than, look it's market feedback that we're working with customers now that are using these agents a bit more than the customers that we've won in the past. You have to remember I mean in the US business we had very strong growth in FY16 so we built - we grew the business quite nicely in FY16. We came into the year fairly confident that we would continue that level of conversion. It's just been delayed beyond our initial expectations.

Sondal Bensan: (BT Investment Management, Analyst) Okay, thanks Tom. Sorry Tom - that was the last one but just quickly I know you've given specifics on earnings and the impact to earnings and your guidance for this half. Other than the specific earnings impact to this guidance, are there any other cash flow impacts that would impact the cash flow over and above the straight earnings differential to guidance?

Tom Gorman: No, look I think again we still have unaudited numbers. So you'll see our cash flows in February. The only conversation that people have raised is in terms of CapEx movements when demand is below expectation. But you'll see that all flow through on 20 February, 2017.

Sondal Bensan: (BT Investment Management, Analyst) Alright, great. Thanks Tom.

Tom Gorman: Thank you.

Operator: Just a reminder ladies and gentlemen that if you would like to ask a question please press star one on your telephone and wait for your name to be announced. Our next question comes from the line of Owen Birrell from Goldman Sachs. Please ask your question.

Owen Birrell: (Goldman Sachs, Analyst) Sorry Tom Just one final question around the CapEx. Now that you've got a surplus of stock sitting there waiting to go out, how quickly can you respond with your maintenance CapEx spend over this coming quarter?

Tom Gorman: Yeah so look we can respond relatively quickly. The only caution that I would just put - well two things - one, to reiterate that we are not required to deliver new pallets to anyone. We got off of that several years ago so the flexibility is much improved in the business in the US. The only caution that I would put is that we also anticipate the conversion of these customers that have not yet converted. So you have to be in a position where you have the stock levels to win that business. At the point in time that we get a decision either positive or negative we then address that. So at the moment we are holding some stock in anticipation of those wins. That's the only caution that I would put on this at the moment. But we can respond very quickly. The business is fairly flexible, clearly flexible within 30 to 60 days.

Owen Birrell: (Goldman Sachs, Analyst) So it's fair to say that the cash outflow for new pallets or replacement pallets for the next quarter at least should be pretty low.

Tom Gorman: Look I think that what you - look rather than answer that specifically let me help you in terms of a little bit of understanding how our business works. We spend CapEx - we'll go through this in February - we talk about growth CapEx and maintenance CapEx. Maintenance CapEx is primarily the capital expenditure we have for replacement pallets, either those that leave the system, i.e., those that are lost. There's a portion of our pallets that come back every year that are beyond economic repair, a relatively small portion. So that's what we refer to as maintenance CapEx. The other level is growth CapEx. Now all of that gets weighed against what we believe our control ratio is going forward. That is how well we control the business.

When you get destocking occurring as we are seeing now, that really drives your pallet balances up. Then you address your new purchases relative to the returns. So there are three or four levers that play in here. You're absolutely correct to assume that if in fact more pallets are coming back and all else being equal to the plan you would have less CapEx going forward. You don't turn on a dime here. It doesn't happen on a daily basis. We run a business for the long-term so we have to be cognisant of what potential future demand is like. So there might be sometimes where you carry a little bit of excess plant stock in anticipation of winning that business going forward. That's really the issues that will talk to you a bit more about in February.

Owen Birrell: (Goldman Sachs, Analyst) Thanks.

Operator: There are no further questions at this time. I would now like to hand the conference back to today's presenters. Please continue.

Tom Gorman: So look, thank you all again. I'll just reiterate thank you for joining us on such short notice. I'll just repeat what I said at the beginning and the end of today's comments. I do believe that the business is in good shape. It's a strong business. We're delivering top line growth in each and every operating segment. We're delivering underlying profit growth in all of our business units except for North America. We are however still in a blackout but we wanted to advise the market that based on what we've seen thus far in the first half that we will not be in a position to deliver our full year guidance. More data will be shared with the market in line with our previously arranged 20 February, 2017 profit release and market update. So thank you again for your time today, greatly appreciated.

Operator: Ladies and gentlemen that does conclude our conference for today. Thank you for your attendance. You may all disconnect.

End of Transcript