Brambles

Event Transcript: 2015 investment market briefing (day one)

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Start of Transcript

James Hall: Well if everyone wants to take a seat, grab a glass of water and we will start. Thanks, everybody, for coming and welcome to - you don't need to close them all, Lou. That's fine, no, leave it. Welcome to Pasadena. This is the second time we've done one of these in Southern California. It's been five years since the first one and we were just looking - it's actually about a dozen of the people here were from - were at that event as well and have come to a number of the intervening investment market briefings that we've done. So it's great that we've got a group who have followed us so closely and for so long and you are all very, very welcome.

The purpose really of this evening is to just make some introductory remarks and have a drink and some dinner and then tomorrow is the bulk of the presentations, and, as you all know, Thursday is for site visits. Before we kick off I'll just quickly do some safety, housekeeping. It's pretty obvious, I think, that there are exits directly opposite where I am standing that go out onto the terrace and then stairs down there to the courtyard. So in the event that we do need to leave in a hurry, that's the best way out. If you haven't found them yet there's loos just to the left as you walk out of this room. Or, if they are a bit congested, there are another load if you go back towards the staircase there and turn right, and walk down the corridor, there's another set of bathrooms down at the end of there.

There'll be refreshments and coffee and tea dotted around this area throughout the course of the event, so please do get up and grab what you need to stay alert. I know a lot of you have just arrived, so please if you need to get up and walk around to stay awake then we won't be offended.

There is, you've probably noticed, a showroom to the right where we've got a very exciting cutaway pallet that shows the new nail plate and clinch-nail design. So do have a look at that. Some videos showing some of our brand and customer intimacy work that's been going on in CHEP and various other bits and pieces there, including some intermediate bulk containers. So we'll be manning those through the coffee breaks et cetera to talk you through them.

Tonight is a very brief agenda. Tom will make some introductory remarks shortly, then we'll be heading downstairs for drinks and dinner. We'll go out through, via the terrace downstairs is the fastest way or you can just go down the stairs into the main foyer of the hotel and back through the bar. But that will kick off as soon as we finish here and we'll have a relatively early night tonight ahead of a very full day tomorrow. Hopefully it stays dry tonight. We did have, I think, Southern California's annual rainfall this afternoon, but we think it will, hopefully, stay dry. If not we do have a room down there that'll keep us out of - keep us out of harm's way.

The printouts of all the materials will be made available tomorrow because that will have all of tomorrow's presentations as well, so you will all get printouts in the morning as well as USB sticks et cetera with everything. I'll just quickly run you through what tomorrow looks like. In the morning we have John Thelan from Costco joining us, which is great and we're having a conversation with him about our business, about his business and the relationship between the two and how they've developed.

Then it's the Pete and Kim show for the rest of the morning talking about CHEP globally and in North America and some of the key strategies and issues in our biggest business. There's plenty of breaks. It'll be a relatively flexible agenda to make sure that we cover what we need to, but there will be plenty of breaks. Like I say, we do realise that people have come a long way and may need to get up and grab coffee and whatever. So, please don't feel chained to your desks.

At lunchtime tomorrow we've got some additional customers joining us from the IFCO business and also tonight we'll have one of our CHEP Pallecon Solutions Containers customers with us and he'll be with us at certain points tomorrow as well. His name is Rob Welling from Dairifair, which is our longest serving customer here in the CHEP business in the CHEP Containers business in the US.

Then the afternoon tomorrow is the RPC show, followed by the Containers show followed by the Zlatko show and then Tom will close things out. I don't need to go through all that in detail, people have got printouts of this material and obviously if you do have any questions just let me or Raluca or Louise, or Cierra or one of the other team here now.

Dinner tomorrow night, just a quick word on that - we will be leaving at 6:00pm. I believe the lanyards that you have have a different time; it says 7:00pm. But we'll be leaving in - we'll be shuttling up from the hotel in small groups tomorrow from 6:00 for dinner offsite. Then that's in old Pasadena which is - it's only 10 minutes' walk but the shuttle will be available too. Many of you I expect will want to go out for a drink afterwards. There's plenty of bars et cetera around the area where we're having dinner.

Then Thursday for those of you who are staying, which is, thankfully most of you, it's going to be an interesting day. We'll go out to Rancho Cucamonga for the IFCO site visit followed by the CHEP service centre at Riverside and we should be back here very comfortably by 3 o'clock. All of you, if you've got any concerns about your transfers or anything like that, then please do see Laura or someone else on the registration desk there.

The only other thing I'd say about Thursday is we do really need to be leaving here no later than 8:30. So I would ask everybody to make sure they are ready Thursday morning to get on the bus.

Just a quick note, as is our usual practice with the financials that we'll be talking about, the currency, unless stated, is going to be US dollars. Growth rates unless stated are going to be constant currency and where we talk about CAGRs those are at 30 June 2015 FX rates. All forward-looking statements are subject to the disclaimer. I am not going to read that out, but you should all be familiar with it, it's our standard disclaimer.

So thanks again for coming, everyone and I'll now hand over to Tom. Thanks.

Tom Gorman: We had this idea to have walk up music, I think the idea has failed because I tripped up. So they'll have to come up with another idea for tomorrow. That was supposed to be Mustang Sally, so - but I ran up here, so apologise for that.

Let me just start by reiterating what James said, and welcome all of you to Pasadena. It's really a pleasure to have you here. We do these investor investment briefings every 12 to 18 months or so and it really is a highlight of the IR calendar every time we get together. For me, in particular, I think this is now my 5th since I've been with Brambles and I think my 4th as CEO. So it is pleasure to see so many of you back here that take such a deep interest in our company. It is a great opportunity for us to present the company to you.

The strategy of an investor market briefing - or the purpose of the briefing - is not just to stand up here and throw slides at you, which we do quite well. But it is also a great opportunity for you to get to know the management team. So what I was going to do tonight, very briefly, is introduce the management team that's here tonight.

We actually have 23 people, including myself, from our various businesses that will be with us either tonight, tomorrow or Thursday. So, I'm just going to call out the names and then they'll either stand or some of them are standing already and they'll give you a wave. Again, the importance of this is that you get the opportunity to spend time with them; ask the questions that you're most interested in and, rather than hearing from me as you typically do or Zlatko or James, is actually to talk to the people that actually do the work, day in and day out.

We have an outstanding group of management with us and we cover a lot of different bases in the business. So, again, I would strongly encourage you to seek them out. But just to make sure we introduce everyone. From the IR team obviously James has spoken today already. He's here with Raluca who is in the back and Louise is probably in our little office. But you guys will see Louise, I think all of you know her.

From the finance team, obviously Zlatko is here, you'll hear from him tomorrow. But Cathy Press is here who is the Group vice-president of capital markets. Cathy doesn't want to stand up but we'll just say that her hair is, so everyone knows Cathy. We'll leave it at that and she'll yell at me later.

Then also Mike Ford some of you may - probably don't know Mike but he's one of our rising stars in finance and that'll be the last compliment that Mike gets for the evening. Then also, James referred to her already, but Sierra is here and Sierra is in the back, part of the communications team.

We have a large group of management from the pallets group, so I'll just run through them quickly, but we referred to Peter Mackie is here. You'll hear a bit from Pete tomorrow. Kim Rumph is here I think Kim is a veteran of these now and you all know Kim, so she's here.

Chris Young, Chris is around, yeah Chris is in the corner and Chris will actually be running through the interview and the conversation with John Thelan tomorrow and I think that will be very interesting. I don't know if Kyle Otting is here tonight. Yeah, Kyle is here, you'll get to hear and you'll see a fair bit of Kyle; he's in charge of, he's vice-president of plant operations for us.

Tracy Scott is here, Tracy is in the back. Tracy now runs all of our recycled business formerly known as the IFCO PMS business, so you can pepper him with all the questions that I refuse to answer. Todd Hoff is here, Todd runs all of our marketing, so you'll see a little bit about our brand repositioning tomorrow and I think Todd was a big - played a big role in that effort.

Skip Miller is not here tonight, but Skip will be out at the plant and Skip is in charge of all our customer service and solutioning. So I think you'll see Skip on Thursday.

Tom Storteboom is not here tonight, but you'll also see him on Thursday and Thomas does a lot of our product development work, he's the director of global product development. Then from the - again from the recycle business Brad Cutcher. I don't think Brad is here tonight but you'll get a chance to see him when you go to the facility.

From the containers business because they're lean and mean, there's only two, so Jason Rabbino is here - I think everyone knows Jason - and Drew Merrill who runs the Pallecon Solutions business for us in North America. You'll hear from both of those fine gentlemen tomorrow.

From the IFCO team, the RPC team, Wolfgang is here I think everybody knows Wolfgang now, but you'll hear a bit from Wolfgang. Then also Dan Walsh who's the president of IFCO in North America, they'll both be presenting tomorrow. Then a number of folks that'll be at the facility: Susan Atwater, Paul Pedersen and Andre Luecht; they're not here this evening, but again they'll be there. So all of the team that are here tonight, again I strongly encourage our guests to seek them out and have conversations with them.

So with that as a little bit of background, why don't we just get started? There's a few key points that I'll cover this evening in the introduction. I'd like to just remind you of these points and we'll come back to a few of these points throughout the conversation tomorrow. But first this evening I'm going to start by reiterating our investment proposition, why is it that people buy Brambles shares and invest in our company? Secondly, I would like to put a little more context around our objectives for sustainable value creation. So I'm going to spend a little bit of time drawing the picture of how we view value creation over time.

Thirdly, I'm going to share a vision around the quality of our business and the quantity of our growth opportunities. So this is terminology that internally and more and more externally we use pretty frequently - this idea of quality and quantity.

I am, tonight, going to discuss innovation in a small way but in particular I'd like to focus on four themes that we've been driving in innovation and then specifically give you some insights into our thoughts on the Internet of Things and how that might play to Brambles in the near and medium term.

Then, last but not least, I'll just throw a slide up just to reiterate our outlook and guidance. So we'll take you from the big picture all the way down to how we see FY16 unfolding. Throughout the management presentations tomorrow you will - I think we'll consistently come back to a couple of basic themes. You'll get this one theme around customer-centricity or customer intimacy and as we mentioned a couple of times we'll benefit from hearing from John Thelan on the stage tomorrow. Costco is a great customer of ours and John is a good friend of ours .I think it will be very interesting for you not only to hear what John has to say, but also an opportunity to present your questions to him.

So customer centricity is a theme and then this idea of building value through both quantity and quality, we'll come back to that repeatedly. So let's move on.

We re-affirmed our investment proposition at the August result presentation and I believe that this is a proposition that really is familiar to everyone. At the heart of our proposition is our customer value proposition and ultimately this investor briefing is really about demonstrating how that continues to be strengthened. Now this is a result of our unique scale and expertise and what we believe is our very strong commitment to helping our customers make their supply chains more efficient and more sustainable.

As I said, we're very fortunate to have a number of our customers at this event. I've referred to John Thelan already. We also, you'll see Frank Ratto from Ratto Bros tomorrow, Roberto Postlethwaite from Cajas Agricolas will be here tomorrow and we've already referred to Rob Welling who is from Dairifair is one of the longest customers that we had all the way back to the CAPS days, actually. So again a good number and a good spread of customers.

Now by continually reinvesting in our customers we drive the outcomes that shareholders have come to expect from Brambles. That is the strong rates of return that we have in our business and the unique access we have to numerous opportunities for growth in existing and new supply chains.

So, what I would like to do now is just to spend a few minutes putting those FY19 objectives in context and provide some more insights about how we view these objectives internally. Now since September, or since December of 2013 we've had numerous discussions with existing and prospective shareholders about the achievability, the appropriateness and ultimately the necessity of having these objectives stated publicly. Now this discussion has certainly intensified since our FY15 result announcement last month when we indicated that we did not anticipate any improvement in our return on capital invested in FY16.

Now we do appreciate the fact that a fixed financial target in a fixed year is probably of limited relevance to long term value creation, and, ultimately, we recognise that it's the continued pursuit of value through both growth and returns that ultimately matters and ultimately creates value. So I'd like to make three additional observations again from our perspective about these objectives.

Firstly we believe that there is nothing unrealistic about the 20% objective for the Brambles Group over time. So we have plans in place to deliver that outcome. On a tangible capital basis, in fact, we consistently deliver returns above that level today. We believe an objective to return to those levels, especially after the impact of the acquisitions that we've made that demonstrates a commitment to disciplined capital allocation that I think our shareholders have a right to demand from the management team at Brambles.

Secondly, I think you all would understand this, there are levers that we could pull in this business that could increase returns in the short term and that would enable us to achieve certain return in a certain year or, in fact, to show more momentum in the direction of that objective. But from our perspective that would not be sustainable and ultimately it would undermine the foundation of our value proposition which is about putting the customer first. We believe that shareholders should take comfort from the fact that we are not making those kinds of decisions despite the very public objectives that we have made.

Now what that really means is the fact that we're seeing no improvement in '16 I believe you should take as a focus that we have around delivering outcomes for the customer. We very much believe that the objective of a 20% return on capital by FY19 is well within our reach, but we're not going to take actions in the short term that put at risk the long term value creation in the company.

Then, thirdly, I think it's important that you know that we as an executive team, and, specifically me as the CEO, we are not specifically incentivised in any way to achieve a 20% return on capital by FY19. Frankly I don't believe that our Remuneration Committee would allow us to do that.

However, it is important that you understand that the management team and the senior leadership of our company is in fact incentivised over the long term to achieve both growth and economic returns. I think those of you that know the company well and know our compensation system, we have a matrix in place which takes Brambles value added, which is essentially the value that we create after a 12% capital charge, and the compound annual growth rate in sales revenue. So we have a very simple matrix that has us focused on building value for the long term by high quality of returns but also delivering growth and quantity of those business opportunities. We believe that this is in fact the appropriate way to align the interests of our shareholders and our executives.

I think, finally, the key point here is that the five year plans that we have in place today are, in fact, when you sum up those plans they deliver the outcome that we've committed to. So as we continue to work to deliver those plans we again are confident that we can get there.

Our commitment, fundamentally, is to continue to invest in opportunities that first and foremost help our customers make their supply chains better. But then also enable growth in both the quality and the quantity of returns for our shareholders. Now, I'll cover this in a bit more depth on the next slide.

Now, in fairness, there's a lot on this slide and it's a little bit complicated, but you'll have copies of this as James alluded to and you'll get an electronic copy on a stick as well. But I'd like to share this with you because it provides insight on our views into building value over time.

Now this chart shows average capital invested or if you want to think of it as the quantity on the horizontal axis and the return on capital invested or you think of that as the quality on the vertical axis. From this slide you can see how growth in each direction has contributed to shareholder value development over the past five years and how they, in fact, could contribute to that value development going forward.

Now the three frontiers on this chart represent the different combinations of quantity of capital invested and quality of returns that would produce the shareholder wealth that we had in 2010. So, again the first line here goes back to 2010, roughly five years ago. The shareholder wealth that we have today, and there's a notional representation of the shareholder wealth that we aspire to create in the future. So those are those three lines that you can see on this chart.

Between June 2010 and June 2015 approximately $6 billion of wealth has been created for Brambles shareholders and we've measured this as enterprise value, less average capital invested in the period. Now, in fact, over that five year period this was really primarily the result of an increase in quantity - i.e. the size of the business increased substantially, almost double through the period as a result of both organic growth as well as a number of acquisitions in the period. This was accompanied by a small increase in return on capital invested.

Obviously to keep creating wealth for shareholders we can continue to grow the business in this way - i.e. double the size of our business over the next five years or so. We can strive to drive higher returns or we can do a combination of both which is what is implied by our objectives in FY19. Now, numerous factors will contribute to that target, with some more focused on increasing the amount of capital deployed at already strong rates of return and some focused on improving that rate of return, or, said differently, improving the business economics. Delivering cost out efficiencies, of which we've articulated a plan to take $100 million out of our overheads obviously falls into the latter category while disciplined portfolio management effectively leveraging acquired goodwill and increasing our investment in established operations will arguably provide a blend of both quality and quantity as we grow value for our shareholders.

Now these factors provide us with multiple levers to continue to drive shareholder value creation over the coming years. It supports targeting a higher aggregate rate of return on capital, which again is in line with our FY19 objectives.

Now our intent from our presentations at this investor briefing is to put long term value creation in context, explain the role of both quality and quantity in driving our performance and give a few insights into the relative roles of our different business units in achieving the total Brambles goal. There are really three key buckets of activity that support this across Brambles as set out here.

First, investing in network advantage that underpins the value we create for both customers and shareholders. We recognise this as one of our key competitive advantages and we will continue to invest in our network.

Second is to drive - continue to drive operational and organisational efficiency. So if again you think about this as improving the quality of our business and taking cost out.

Third is all about disciplined capital allocation and allocating capital in a way that drives long term growth in our business.

Now, Zlatko will cover the final of these three points in some depth as we close tomorrow afternoon.

Now, Zlatko will make it very clear that our growth in - that our growth capital expenditure is heavily weighted towards the well established businesses. We take a critical approach to performance of business units throughout the portfolio and that we're investing for the long term. Now I am going to speak a little more now about the first two of these and some of the opportunities that are opening for our company as a result of our approach to reinvesting the benefits of our cost efficiencies.

Now we recently completed a $100 million program to reduce direct costs in the pallets business and you should all be familiar with the One Better program which I referred to earlier which is targeted at taking another $100 million out of our cost structure, this time taking it out of our overheads or our indirect spending. That should equate to about a two percentage point improvement in sales - in overheads as a percentage of revenue from our FY14 levels.

The One Better program, like all change management programs, is not without its challenges. But it has begun delivering real impact already. As most of you know and we shared with you in August we reduced our overheads about $11 million in the 2015 financial year. Now we're on target to deliver a total cost out of $30 million for this year and that would then be a component, the first third, if you will, of the $100 million that we plan to take out of our business by FY19. Again, that translates to about two full percentage points of reduction in overheads as a percentage of sales.

Now, in practice we are constantly looking for further opportunities to reduce direct operating costs as well as overheads in all of our operations. We're thinking about ways to organise our business and to structure our business more efficiently and more effectively to deliver for our customers. Now shareholders should expect this remain an extremely important focus for Brambles.

Now the reason that this is so critical is that these cost reductions funds the important stuff, the critical stuff in our business and that is the investments that enable us to entrench further the outstanding market position and competitive advantage that our business has. Quite simply, we want to extend the moat around our business or raise the competitive wall, however you want to refer to it, but we believe taking these cost savings and reinvesting in our competitive advantage is key for building value.

Now, Peter and his team will cover some of the example of the types of programs that we are carrying out with customers today to drive value in their supply chains, he'll cover that tomorrow. We are delighted that you will be able to hear directly from the mouth of one of our largest partners, again, John Thelan from Costco and he'll be here tomorrow morning.

Now I encourage all of you, again, to seek out our people and to ask them to tell you about the various customer initiatives that are underway and the ways that we're collaborating with our customers around the world today.

Now these types of activities are a genuine, competitive differentiator for Brambles. They reflect strongly the advantage of our network scale and our expertise. Now you might recall that when we launched the One Better program back in 2014 we said that it was about protecting and enhancing our core competitive position and freeing up capacity to invest in new growth opportunities. We also talked about our reinvigorated approach to strategy and developing our corporate strategy globally and the role that technology and customer relationships would be central to our innovation activities as we sought to capture the true value of our network and our asset management advantage.

Now we are investing more on initiatives that are truly innovative and that can add value to our customers today such as a number of collaborative projects to help customers better understand their own supply chains. We are investing heavily in developing our solutions portfolio and positioning our brands with the customer. But I would like to comment today by giving more of a flavour of how we are approaching innovation and beginning to scratch the surface with what we loosely call Brambles technology services.

So, as a leadership team, when we stepped back and started to look at the idea of innovation for our company, we broke it down into four basic themes. We felt there were four areas that we should focus our innovation efforts on. The first was around supply chain services. What can we do to offer more services to our customers to deliver more efficient and more effective supply chains?

Now obviously with LeanLogistics as a key component of our business are there more things that we can do with Lean? Are there different ways that we should be levering Lean and can we, in fact, build that in to a suite of services to our customers?

Secondly, is around supply, is around Omni-channel and Omni-channel for us really means a couple of things. When you step back and think about Omni-channel retail and what's happening with our customers it really falls into a couple of buckets. First and foremost the evolution and the development of small store formats around the world. Secondly, it's around click and collect, how the customer is shopping in a different way and thirdly, it's around home delivery.

Now, Peter and Wolfgang have been doing a ton of work on this collaboratively with a number of customers and a number of new players in this space and they are both well positioned and well prepared to cover a number of these initiatives tomorrow and, obviously, they'll available to answer any questions that you may have in the course of the next couple of days.

The last two concepts for us were around the theme of track and trace and big data analytics. When we put more effort into this we realised that the combination of those two is really what today is referred to as the Internet of Things. Now for some of us that have been around a little bit longer we might remember when this was referred to as M to M or machine to machine communication. But today, broadly, it's referred to as the Internet of Things. We have started to position ourself to focus much more on what Brambles could be doing in this space going forward.

I'd like to share with you a few of our emerging thoughts in this space. First and foremost for us the Internet of Things starts with the fact that as a company today we have about 500 million ULDs, Unit Load Devices. Now the vast majority of those obviously are pallets. But we have pallets, RPCs, intermediate bulk containers, Unit Load Devices for the airline industry, cargo carrying units for offshore oil and gas. We have a series of assets today and again about 500 million of those assets. By and large those assets are dumb. Now what do I mean by that?

Quite simply those assets can't tell us anything. They can't tell us where they are. They can't tell us how they feel, are they hot - are they cold. They can't tell us where they have been. They can't tell us where they are going. They can't tell us what sits on top of them or in the case of our packaging what sits inside them. They can't tell us if they've been damaged or how hard they have been hit recently. So, essentially it's a piece of equipment that does very little for us other than move product to market. So as we have been thinking about this we have been thinking very differently about what we should be doing in this space.

Fundamentally there are a few thoughts that we have. First of all we believe it's time for us as a company to move from simple track and trace pilots of which we have done a number, all of which have proven to us that this is technically feasible. But what we really want to move to is to delivering more data driven customer solutions and, more importantly, we want to focus on commercial viability. In many terms we - in many cases you'll hear this term the minimum viable business. We want to start focusing on what can we build for our customers, the combination of using track and trace and data analytics that creates value.

The second step in this is after thinking differently we have to move to developing a proof of concept. Now here the proof of concept for us really falls into two camps. First and foremost it's an internal benefit for us. I think again those of you that know our business well you know that we use this terminology around loss, velocity and damage. What drives value in a pooling company is - are those three levers. If you don't lose them you drive value. The more you lose the more it affects your capital base, the more you lose the more it lowers your return on capital, the more cash you're spending. So reducing loss is critical from our own business.

Second is around velocity. The quicker you can turn the asset and make it revenue generating the better it is for return on capital, and we'll talk a little bit about that tomorrow and you'll see the great progress that the US CHEP pallet team has made by reducing losses and improving velocity. It clearly has some other impacts on the age of the pool but from a return on capital perspective it's the right thing to do.

Thirdly it's around damage. If we can get our assets out of harm's way more quickly. If we know where they are and we can get them out of environments where damage is higher, again, we can lower our operating cost and improve our overall return on capital.

Then, thirdly after we proves these concepts we really want to move to an execution plan. That's where we are today. We have spent really the last year working through a number of possibilities and what we now have committed to as a company and a leadership team is first and foremost to organise ourselves properly. We have a number - we refer to it as a thousand flowers blooming, and oftentimes I think that's a nice way of saying we have a lot of activity underway which isn't well organised. But we have committed now to organise our self and to put a small team in place to start focusing on the Internet of Things opportunity. This team will report directly to me. Obviously they'll play a role in terms of coordinating with Jean Holley who is our CIO and linking in to our systems capability today. But we're really at the front end of building this capability.

Really over the next six to nine months we'll come back to the market and talk more about the capability that we're developing The intention of building this and where we see this going not only for the internal benefit around loss, velocity and damage, but really, can we make our assets more intelligent in a way that they can provide useful information to our customers. I think you all understand that the flow here is from data to information to insight to knowledge.

If we can move across that perspective and deliver real insight and knowledge to our customers and generate another wave of business opportunities for us not only does that extend the moat around our business, not only does it leverage the assets and the network that we have in place, but it creates yet another opportunity for us to generate positive efficiency for us, positive outcomes for our customers and ultimately new sources of revenue for Brambles. So this is more of a watch this space, but that is where our thought process is going today as we think about innovation and specifically innovation in the realm of the Internet of Things.

Well now what I would like to do is to bring us back to the here and now of today. So moving from the long term and the theoretical and the philosophical about building value to talking about how we're performing thus far in FY16.

Now what I'm showing you here is a slide that is simply reproduced exactly the same one that we included in our August results deck now just a few months ago. I think the simple message to say is that nothing has changed since the announcement in relation to this outlook.

Number one we remain committed to our FY19 objectives as I've spent some time presenting to you tonight. We are confidently expecting to invest about $1.5 billion in growth CapEx between now and FY19. In FY16 we expect our constant currency growth both in sales revenue and in underlying profit to be in the range of 6% to 8%. As I think most of you might be aware already we will provide to the market a first quarter trading update on 15 October in Sydney.

So, that again is a very, very brief introduction to get us started at this investor briefing here in Pasadena.

I'd be happy now to pause for any questions that you might have. My whole leadership team is here this evening, so if there's anything on your mind that you'd like to put forward this evening. I think we have plenty of time to do that and if not, we'll break for dinner and then, of course, we'll have plenty of opportunities for questions throughout the session. But why don't we get started tonight. So, Matt?

Matt Spence: (Merrill Lynch, Analyst). Yeah, Matt Spence from Merrills thanks, Tom. On the ROIC target for starters you've talked about disciplined allocation of capital and you're excluding any further M&A from the ROIC target. Do you exclude if you were to sell any divisions as well?

Tom Gorman: No, the idea that we had back in December of '13 was the reason that we said it at that point in time was because that was a portfolio of businesses that we had then. So our ability to drive improvement in returns it's really going to come in a couple of ways that we tried to point out.

One is around the quality, so continuing to build and invest in the future. If we invest in returns that exceed our cost of capital that's building value for our shareholders. But at the same point in time if there are businesses within our portfolio that we don't believe can deliver those outcomes for us and we take decisions over the next couple of years that they don't belong in the portfolio that would be part of us building to a level of a 20% return.

We'll touch on that very briefly tomorrow. We'll do a few things about capital allocation that Zlatko will touch on and I think we'll come back and touch on this issue where businesses don't fit the portfolio the possibility of those exiting the Brambles business does exist.

Matt Spence: (Merrill Lynch, Analyst). Can you talk to it a bit now? Is there...

Tom Gorman: Well I think, actually I can obviously, but I think in the context of what you'll talk about tomorrow I think it'll actually be a richer discussion because we'll be able to put it in the context of all of our businesses. We have kind of laid they them out in an array to show where you those businesses fit today. Some businesses that are actually below our return objectives we're very confident that they can improve, so we want to keep those businesses for the long term. We'll also show you the data both with and without goodwill so you get a sense of even businesses today that have returns that might look low the incremental amount that we're putting in is actually well above our cost of capital.

So, if you don't mind, Matt, it'd probably be better to wait till tomorrow, but we'll make sure we come back to that question because I can think we can contextualise it much better.

Matt Spence: (Merrill Lynch, Analyst). Just a last one, is there anything you can say on CapEx implications from moving to track and trace or even beyond track and trace?

Tom Gorman: Yeah, look I think this is very theoretical. So in a way it's dangerous to have this conversation, right. Because if you're going to run out of here and say that Brambles is a leader in the IoT you've kind of missed the point. What we're trying to say is that we recognise that the competitive advantage that we have in our network and an installed base of assets is enormous. The challenge for us though is - has been to find an economic solution to make those assets intelligent. That's the real issue. If you can find an economic way to do - to track and trace your assets and the challenge that we have is that we need that to be an active communication device not a passive device.

A passive device, as we've said repeatedly, kind of tells you who scanned it last. It doesn't tell you actually where it is. We know we have the technical capability because we've done this in the US. I think you all know we tagged about 12,000 pallets in the US and it's an active communication device. Not only does it give us pretty good locational accuracy, it gives us temperature readings and it gives us impact forces. So it's very helpful. But it's very expensive for us. It's uneconomic with the technology that we have today. So what we need is two things here.

We need the cost of that technology to come down and there are many choices here. Bluetooth is an option, WiFi is an option it isn't just GSM that's the only potential solution. So we need to organise ourselves better to explore those opportunities. Today, frankly, we're not organised to do that.

Secondly, in addition to track and trace it's really using data analytics and the massive advances that have been made in data analytics now gives us a lower cost way to analyse the mountains of data that we already possess. So excluding anything with track and trace, just the mountains of data that we have, our ability to manage those in a more unstructured environment than we used to historically, allows us to glean a lot of knowledge and insight from the data that we have. We believe that that will be very helpful, particularly in terms of simple things like where we do our audits.

So how we allocate our audit resources can change materially. Obviously you want to audit the customers and the parts of your business that you think have higher losses and not wasting money auditing things that are well under control. So I think just simple things like that are going to help us and the simple answer to that is that our CapEx should come down over time. But please don't roll into your model some massive reduction in CapEx. This is really to give you some insight in terms of what we're thinking about and the strength of the asset base that we have. But there is a long way to go here, particularly on building the track and trace technology at economics that make sense for our company.

Sure, I think you need a mike here.

Cameron McDonald: (Deutsche Bank, Analyst) Thanks, Tom, Cameron McDonald from Deutsche. Can you just talk a little bit more about that around the data that you collect and what data can you collect or have a natural advantage in over and above the data that the customers have or should be getting themselves and how do you monetise that?

Tom Gorman: Yeah, well so there's several ways there. So first of all I think everybody knows that way we collect data is customer reported data. So the data that the customer has is only data that they have for their business. So we get the data from every business that moves something on our asset base. The best example I can give you is in Australia today because we do this in Australia. So, as I think you know, we have a very high market penetration in Australia. It's a highly palletised market, it's a highly pooled market. Those of you that know our business well you know that each quarter the Food and Grocers Association makes a forecast in Australia. They're making that forecast based on our data. In fact it says powered by CHEP underneath it. So we collect those data.

We partner, in the case of Australia we partner with Deloitte Analytics but they're taking the data that's reported in our SAP system today and that's allowing us to make very, very accurate forecasts on overall consumer demand. So what our customers have they have their own data. So P&G knows what they move, Nestle knows what they've moved, so forth and so on. So the first thing is the aggregate of that information may in fact be useful to a whole series of players in the FMCG space. That's the first opportunity.

But the real - the near term opportunity is the value that that information has to us specifically. So our ability to analyse those data and to do very simple things like I alluded to just in terms of our audit program and what we should be doing on audit. We think that there are other opportunities for us as we'll look at revenue management. Where are there opportunities for us to be more aggressive on price to win share or where are there more opportunities for us to take a little price in markets where we think there are some opportunity.

So here in this case, Cam, we're really just scratching the surface. But we have been playing with this for a while and we've never really properly organised ourselves to attack the problem.

Fair enough, Pete?

Anthony Moulder: (Citigroup, Analyst) Hi, Anthony Moulder from Citigroup. If I just follow on from that I think you are unique as far as the datasets that you drag into your organisation. Does it have to be a revenue opportunity because I would think that it would still, over time, present a lot of opportunities over and above where you audit and pricing et cetera? I guess what I'm seeing on the slide is that it looks like it has to pay its own way and generate a return. Is that the way that we should think about it, or why not [unclear] ...

Tom Gorman: I think that's a good challenge, Anthony. I mean like to start with we're not a philanthropic organisation right, so I mean it's not our intent to take shareholders' resources and just run around and doing science projects. That's not who we are. But I think we recognise a couple of things in this space and this has maybe been what's held us back a little bit up to this point in time.

If we don’t provide some seed capital here this thing won't get off the ground. So the seed capital comes from the corporate centre and I think the whole executive team and the board are aligned around this that we believe that there's enough here in this concept that we need to provide some seed capital. The way we provide that seed capital is by driving cost and being more efficient in our business. So that's the first thing and we do have in our budget, for this year, a small amount of seed capital to support this IoT initiative.

But I think that the concept of then building a minimum viable business so that's language that we're starting to use a lot more as our own internal vocabulary, that means that it has to be delivering value to somebody. So for me to go to Kim or to James McCarthy in Europe or to Yuri in South Africa and say, I'm going to allocate you X millions of dollars because I'm running a science project. I think they're going to look at us and say, well look we don’t need science projects; what we need is value delivered for the customer.

So if we can deliver that value then the operating team should be willing to pay for it. I think the value comes in two ways. First, I really believe that a lot of the value is going to be generated internally. So the improvement in loss velocity and damage is very powerful to us. So we'll just pick on Kim because she's here, if we go to Kim and say, look for a couple of million bucks we can generate, we can develop an application that helps you reduce losses by X basis points and she should hold the team accountable - the IoT team - to deliver that solution to her that gives that return and then she pays the cost of that service. That's the mentality that we use here. I think that's the way that we can prove this concept rather than just having it as a remote science project that doesn't link into the company. So that's internally.

For the customer I think it's - I think this will be a series of discussions. One is whatever we can do to extend the moat is value creating. We understand that. So if this becomes yet another service that we provide to our customers that link them more tightly with the CHEP or the IFCO operating brands that's good for us. So I'm not saying that it has to be specifically revenue generating in that way but I think one of the things that we've done historically over time, and you'll see this in our brand positioning work, there's a heck of a lot of stuff that we do in the market today that provides a lot of value to our customers that we're not always sure we get credit for in the market.

There's a ton of stuff that we do. As you know our competitors, they're mostly private equity backed, they're a CHEP me-too or an IFCO me-too, simpler, lower cost. If we're going to spend the capital and invest our shareholders' wealth in building these capabilities, we have to get a return in some way for that shareholder. Now it might be extending the moat but that means that it has to really make the customer that much stickier to the CHEP or IFCO brands and we'll continue to look at it that way.

Anthony Moulder: (Citigroup, Analyst) I agree, but I guess some of it could be risk mitigation as well is the other way to look at it?

Tom Gorman: Yeah, but look the business - it has to be incremental. Look the business is under control today. I mean I think that we're at a space today the strength of what the operating teams have been - done both - both under Wolfgang's leadership and Peter's leadership and a well with the containers group. I mean the containers group don't have the loss issues that we face in some of the higher volume businesses or the higher velocity businesses. But the business is in pretty good nick today. But the way we're doing it is with a lot of heavy man hours and heavy lifting.

If we can automate some of that stuff and if we can really prove that this concept of M to M works, you're becoming more efficient. You're taking cost out of the system. So I mean the ways to do this, you either improve loss, velocity and damage at some incremental cost or you hold where you are at lower cost. Either one of those is a good story for us.

Paul Butler: (Credit Suisse, Analyst) Hi, Paul Butler, Credit Suisse. You had a slide up there saying you would weight new investment towards established businesses. I just wonder if you could elaborate on what that means, and also has your thinking about that weighting of investment changed?

Tom Gorman: No, I think what we - the way I just, maybe just, I don't want to play semantics here. But what we are saying is that the weighting of that investment is towards our established businesses. So in our planned period it's heavily weighted towards our established businesses so that's just factual in terms of where the capital that's being spent. So if you just looked at the year-on-year we said in FY16 we'd spend about $500 million of growth CapEx in that period. Last year in FY15 we spent $350 million. Of that incremental $150 million the vast majority of that incremental spending is either going to the pallet business or the RPC business.

The containers business still gets a big chunk of our capital but the incremental investment in '16 over '15 is heavily weighted to the pallets business and to the RPC business. Why is that? We believe that emerging markets pallets are going to grow more strongly this year than last year. So there's about 25 million in emerging markets. We are investing in taking our plant stocks up a little bit in the US. There's about 25 million there. Across the globe we continue to invest in display platforms and there's about $15 million of capital going into the pallets business there. Then on the container side, I mean on the RPC side, we're getting great growth. We're getting really strong growth in Europe, we're going to support that.

We won the REWE business which we referred to before. We've won that business we're still investing in REWE. We had a 10 year contract with REWE and there's more growth to come from that business. So that's what we would call well established businesses. But don’t assume that we're not investing in the containers business because we are. In fact their investment year-on-year is going up. The reason that it doesn't look as large is because last year Jason won the Cathay Pacific business and that was about $15 million of investment last year. That doesn't repeat itself this year. So his investment is going up but on a year-over-year basis it just doesn’t look that large. It's about a $10 million increase year-on-year, okay.

I think there's a question in the far corner.

Nick Markovic: (Morgan Stanley, Analyst) Nick Markovic, Morgan Stanley. Can you talk to the - I guess the $100 million cost out program over the next couple of years? I mean you've said that $30 million will be in FY16 and margins have essentially been guided flat with revenue or EBIT growth guided flat. So how should we think about the remainder of the $70 million, particularly in the context of the comments and the slide around reinvesting with customers?

Tom Gorman: Well I think that what we've said from the beginning and I think that people probably thought maybe some people assume that we're just being overly conservative here. But when we set about this $100 million effort - this thing that we referred to as One Better - when we set about this we really had three imperatives that we talked about, particularly internally to convince our own company to change.

I mean a lot of people within our business think, look the business is going along pretty well. Yeah we'd like to have greater growth but the world is kind of a mess. We're growing faster than the rest of the world. Our margins are good, our returns are good, there's generally that feeling when you look at our business and I can understand that.

I think from a leadership perspective we absolutely don’t accept that. So what we said is that there were a number of imperatives to drive cost out of our business. The first is a competitive imperative and I've referred to this. Most of our competitors, if not all of our competitors, don't look like us. They're not public companies. They're a me-too that tries to undercut us on price with a simpler offering. That's the reality of the market that we're in every day. If we're going to be competitive in that market and we want to hold the margins that we have and improve return on capital, we must be lower cost, no argument from anybody on our team. So that's the first thing.

So the simple assumption from that is, as we take cost down we're going to be able to price more aggressively in the market to either win share or hold that share that we have. So that's reinvestment in the customer.

Secondly, we think that there's a customer imperative here. Our customers are continually demanding more from us and you'll see a lot of this tomorrow when you hear from Kim, in particular, when we talk about what's happening with continued automation in the environment where our assets are placed. The need for us to continue to offer improved quality, continuing to raise our game with the customers and, as Anthony raised, the opportunity to continue more services, to extend the moat around our business. So we're taking those savings and reinvesting in new initiatives.

So this IoT initiative, look, whether it becomes anything or not, who knows, but I can tell you we're going to spend real money on that today. So rather than take some of that incremental $20 million savings and have it fall to the bottom line, we're investing in the future. So that's an example.

The third imperative that we think that we face is the imperative of our shareholder base. We think that the market is demanding from us long term, sustainable returns. The way that we keep long term, sustainable returns is we continue to invest in our competitive advantage. So those three imperatives are what drove us to take on this objective to rip $100 million of cost out of the business. So it doesn't necessarily fall to the bottom line, but it manifests itself in extending and I can keep on coming back to the same point, in extending the moat around our business.

Look we have a gem of a business. I think most of you that know our company you know that. We have two responsibilities as a leadership team, one is to continue to protect the network that we have in place today and then secondly, to extend the opportunities to invest our shareholders' capital in strong growth at high returns. It really is that simple for us. It's around quality and quantity. So you take the quality businesses that throw off a lot of good cash for us and we invest those in high quality businesses, more of those, and in some cases the gestation period for the returns are longer. That's the mix that we see going forward.

So it's not - if you take the $100 million and drop it to the bottom line, I think we would not have done our job. We’re taking that cost out to build sustainable advantage for many years to come.

Will Charleston: (Goldman Sachs, Analyst) Tom, Will Charleston from Goldman Sachs. Just given that material step up in growth CapEx in FY16 versus FY15, should that led to a pretty material step up in new business wins looking into say FY17 or beyond?

Tom Gorman: Yeah, I think it should. And I think the way that you - that should come to the fore is when you hear the guys here present tomorrow. I think you'll hear from Kim very much that in terms of the growth that we're driving. Now in fairness, a lot of the presentations tomorrow don’t take the five year plan and lay it out year, by year, by year. But the new initiatives that we have in terms of display platforms in the pallet business I think Kim will touch on that tomorrow.

The initiatives that we have in the IFCO, North America RPC business, you'll hear very clearly from Dan how he's organised for success and that's driving more capital investment. Our plan is to invest quite a bit in the North American IFCO RPC business and the European business we’re not going to talk about it that much. I mean I think Wolfgang will touch on it and he can answer these questions a lot better than I tomorrow. But that business is in a particularly good sweet spot in that frankly we have won quite a bit of business more recently. We started the year with the Intermarche win, so we're now building pools to support that growth. So we're pretty confident of getting that growth because we've won the business we now have to put the assets in place.

So, again, but the five year plan, just to reiterate, we said high single digit growth so again that should be in this range of 7% to 9%. We said that we would get positive leverage to that in terms of underlying profit or EBIT growth would exceed that growth and we now have said that the average capital investment is going to be a little bit higher than we stated back in '13. We originally said we'd grow ACI at about 5%, it's going to be north of 5%. So we are going to put a little more capital into the business. But if you do the math, from where we are today we still believe we can get to a 20% return by that point in time.

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Look, if there comes a point where we have opportunities in the near term to build long term value that impact our ability to deliver that we would come forward and say it.

Okay, I think I've worn you out or you're thirsty, one of the two, so look, again on behalf of my whole team, let me just say thank you very much for making the effort to join us over the next couple of days. I know this is a big commitment on your part. It's a big commitment on our part as well. We really do love these sessions and the real value for us is when we get to talk to you, one-on-one. So please take advantage of that.

We're going to break now for drinks and a light dinner. Then come back energised tomorrow. It is going to be a long day. As James said there are a lot of breaks planned throughout the day, but you won't offend any of the presenters if you just want to stand up and stretch in the middle of the presentation tomorrow. If you need to grab another cup of coffee or a Diet Coke to keep you going, please do.

But we put a lot into this effort. We really want to bring you into the tent and get you to know our team as well as we can present ourselves and also our strategies for building value. So with that, thank you very much and we'll see you outside.

End of Transcript

Brambles

Event Transcript: 2015 investment market briefing (day two)

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Start of Transcript

James Hall: Morning, everybody. I think we're all - we're pretty much all here. Thanks for showing up promptly. I hope everyone got something to eat. If you didn't, there are a load of snacks artfully displayed in RPCs in the showroom, if you do want to grab something else or - right now, as we move through.

We've got about three and a half hours for this morning's session, but there will be plenty of breaks. As I said last night, if you do need to grab more coffee from outside, or a glass of water, or just get up and move around to stay awake, then we won't be offended if you need to move around.

Pete's going to come up and make some opening remarks in a moment, and then we'll go into the Q&A discussion with John from Costco, who we're very grateful has joined us this morning. Then lunch will be around 12 o'clock. That will be downstairs in the courtyard, where we had drinks and dinner last night.

So, with that, thanks, Pete.

Peter Mackie: We have a really good morning for you. We're going to kick off, actually, with Costco. I'm going to then spend a little time talking about the business globally, and then Kim is going to talk about North America, which I know is of interest to everybody in the room - and lots of time for Q&A and all of that.

But, look, for this first session this morning it's a real pleasure to have Costco here and to have John Thelan here. So Costco actually is a key customer for us, not just in North America, but actually globally. John and, actually, Costco were instrumental in helping us start the business here in the US. So we brought value to Costco's business and we grew as a consequence of that, and Costco gave us great support in getting stated here in the US, and we're supporting them around the world.

So the session this morning actually is going to be as open as possible, so please feel free to ask as many questions as you can. Chris Young, who's on Kim's North American leadership team, is actually going to facilitate the session today. Chris is a key part of Kim's team; has been with the business for quite some time, so he's run plant operations for the business and, more recently, actually been responsible for our retail relationships in the US business, and is just about to move to a role running supply chain for the North American business as well.

So without any further ado, I'd invite Chris and John to come and join us on stage. Hopefully, your walk-on music is significantly better than mine.

Chris Young: Thanks, Pete. That's interesting walk-on music. Good morning, everyone. I've been with CHEP now for a little over 13 years. As Pete had mentioned, I've had the opportunity to work in a variety of different roles, and I've had the opportunity to interact with Costco in a variety of different ways throughout my career here, which is why I'm delighted to be on stage this morning with Costco and with John Thelan.

John Thelan is the Senior Vice-President of Depots and Traffic for Costco. He has a relatively broad remit, so he's pretty much responsible for all of the product flow through their network, so product that flows down into the depots. It's cross-docked into the depots. That moves down to their warehouses, and then the reverse move back.

John's been a senior executive with Costco since the early 1990s, so he's had quite a tenure there. What you don't see here about John is that - and I just recently learned this - is this that he's actually an attorney. So how he made the transition from attorney to supply chain expert is beyond me, but he's clearly done quite well with that.

It's interesting. Pete did mention about Costco and the fact that we've been engaged with them in the US here since the early 1990s, and we've certainly been engaged with them globally as they continue to expand. So Costco is the second largest retailer globally, and I find there's a lot of interesting things about Costco. I think a number of you spoke with me last night about that.

One of the most intriguing things to me is the level of customer loyalty that they have. I think customer loyalty - particularly in the member based club channel that Costco operates in today - can be measured by the amount of renewals that they get from their memberships. Costco's renewal rates for their memberships hovers just below 90%, so in the high 80%, which is truly extraordinary.

I mean that means that there is a high number of loyal, card-carrying Costco members out there. I happen to be one. I know there's a number of you in the audience today that are also those card-carrying members. We means we like to buy a lot of things in bulk. Sometimes we buy a lot of bad things in bulk, like bacon or chocolate, but it's difficult to pass up on some of those good deals.

Many of you may have been present at the IMB meeting in Zurich about three years ago, when Kim Rumph stood up on stage and indicated that we were going to take more of an effort in relating to the retailer and creating value for the retailer. We've really been on a journey since then. Since that time we've established a team that's focused solely on the retailer.

In addition to that we've launched our go-to-market solutions, which align very nicely with retail value creation. So I couldn't be more delighted, three years removed from that meeting, to be on stage with one of the world's leading retailers, to have a discussion with all of you in the room today about the retailer and, more specifically, about Costco.

How this is going to work today is that, in just a bit, I'm going to turn over to John. He's going to talk a little bit more about Costco and Costco's priorities, and then we're going to open up to the floor for questions. I would assume that based on the number of questions I received from many of you last night, that this will be a pretty interactive discussion. So, hopefully, we'll make the best use of John's time, since he came all the way down from Seattle to be with us today.

So without further ado, I'll turn it over to John.

John Thelan: Thank you, Chris. Good morning, everybody. I wanted to run through - just a small handful, and I'll go through it quickly - in terms of Costco and area that I oversee in terms of logistics - to give you some framework for questions and answers and so forth and so on in terms of what we're all about.

As was mentioned, we're the second largest retailer on a global basis, sales exceeding - this financial year which we just ended, just shy of $114 billion; about 97 million square feet of space. We have a very standard footprint of 144,000 square feet per warehouse. Our warehouses are our stores. You get in a lot of trouble round our place calling something a store. We don't have stores. We have warehouses.

200,000 employees - we have an incredible retention relative to our employees. Some of you might follow Costco a little closer than others, but in our distribution end of the company, which I oversee, we have less than a 4% turnover. We have a lot of folks that are with us a long time. We consider our employee base to be a very, very important asset within Costco.

Our trucking operation - when you have trucking in America where you have some trucking regions that are over 100% turnover - on average the industry's 50%. We're less than 5% turnover in terms of trucking operations. So we do take care of our people, and our people are very important to us. We have a lot of transactions per day.

In terms of the campuses, 23 campuses worldwide. A campus to us is a refrigerated - what we call a wet depot teamed up with a dry depot. That's one of our campuses. Inbound truck loads exceeding 1.5 million. And then we combine that - mixing heavy and light freight - to have roughly 50% number on the outbound, so we're doing a lot of work on making sure we're combining heavy and light freight.

Our number one cost by far in running our logistics end is freight, so we're very interested in anything that can help drive out freight costs. Then outbound pallets - which is important to these folks - some - approximately 42 million outbound pallets. We get a fair number of deliveries directly to our selling warehouses, so the actual return number exceeds 45 million that come back to us, because we get a lot of direct store deliveries, things like this nice brand of water, things like that, that go directly to the warehouse.

This is a quick - for those of you who haven't visited one of our depots, this is a day in the life of Salt Lake City. You'll see receiving activity on the right hand side, where the truck loads are coming in. On the left hand side is one of our shipping areas where we have dedicated lanes per outbound warehouse. We're a very, very mechanised distribution network. More than 90% of our employees are operating equipment: forklifts, electric pallet jacks.

Cleanliness is very, very important to us. The way that floor shines is just the way we'd be if you were out there today. Nothing was done for purposes of this little quick vignette. Everything we receive, within a matter of ours is going down the road. At the end of the day they literally scrub the floors and everybody goes home; starts the next day. So that'll save you a trip to one of our facilities.

On equipment and handling, this is just a real quick little vignette. When we started the distribution end of our Company you'd see an awful lot of these hand jacks. You still see them in a lot of distribution centres. We prohibit them. They had to borrow one of these from a warehouse for purposes of this photograph. Everything we do has electricity behind it and it's motored.

This was the largest piece of equipment you could get when we started this in the 1980s. It was a two position pallet jack. We actually had to go to the manufacturer to have them develop a triple jack, which they were able to do, and then we went to a quad jack. When you actually lowered this, and you're loading on the 48 inch side, you can get 10 pallets per.

As I visit the facilities my eyes are open about how's everybody moving all this freight and are we doing it as efficiently as we can. We have a large, large percentage now of our inbound truck loads that are offloaded with electric pallet jacks. So they're taking multiple, multiple pallets off at once. Handling is a very big - very important to us from driving out freight cost.

Some of our challenges - just in time inventory - as our sales grow per location just in time inventory becomes critical. I will mention, from a global basis our number one location is in Seoul, Korea. That particular single warehouse does more than $500 million in sales a year. It's an enormous amount of product that's - just in time inventory becomes really critical when you're running a facility like that.

Direct imports are very important to us from a cost savings perspective. Direct exports - as we become more and more global - and then all of our merchandise is cross-docked and going out the same day.

In terms of where we are on a global basis, 687 warehouses worldwide. You can see dominant in the US, Canada, Mexico. That's shifting and changing as we speak. We have a lot of growth that's going on globally, is going on globally, and that's part of our plan, is to see what we can bring to the party in various countries on a worldwide basis. We're always out looking at new markets, and global is - that's one of the reasons why I'm here relative to being a good partner with CHEP, because we can support each other on a global basis.

Some of the top brands that we have - we have a lot of branded product, a lot of names you'll be familiar with. Then, in terms of challenges, what are our challenges? Efficiency relative to freight, growing backhauls. We have an awful lot of inbound freight. What are we doing to backhaul out? We have to go to the warehouses for sure, but we make deliveries out to the warehouses. What can we do to stop by, pick up other inbound freight back to us? That's a constant task, of how to make very efficient use of our freight dollars.

Factory direct is very important to us. We're always beating on our suppliers about why isn't this product coming directly from the paper mill to us, why is it going to a warehouse, they're adding - going to a warehouse, an interim warehouse, we're just adding cost. We get into a lot of lively conversations with our suppliers about trying to build up a factory direct business and avoid any middle of the ground cost.

We have an awful lot of statistical information about when you reduce a cost, when you reduce a price to a member, how much more merchandise do we sell? We can go on and on and on for a long time about if you could make this $3.99 instead of $4.29, yes, you're going to sell more product, and just time and time again. So we are in a pennies business, no question about it.

Growing business to business, this is an area that we're bringing something to the party. We have a separate group of business delivery and business centres where we're developing a product line to bring the same kind of pricing we bring to the general public to small businesses. That's going to be a rapid area of growth for us within the Company with unique merchandise. And we do a lot of business delivery as part of that business model.

Growing pharmacy, optical, hearing aid, benefits, services, that's another big important part of our business. Every year when we have our annual shareholders' meeting they do little vignette clips of Costco - obviously, all favourable stuff. One is pharmacy. They always put up a handful of slides when a drug goes from what was a proprietary drug to a generic drug.

It might be something that we're selling for $200, and the rest of the pharmacies, they'll slowly bring down the price. It was $200. They'll go down to $180. They'll go to $150. They'll go to $120. When it goes generic we go to $20, and the kind of local press we get is enormous. We can't spend enough money to buy that press in terms of what our pricing model is. So anything we can save by doing hard negotiations with these folks, or anywhere else, it all goes to the member and it all goes to lowering the price.

Manufacturing is another area that we're growing on. We're just spending some time talking about CHEP's business model and some of the crossover we can see in terms of our manufacturing business and CHEP.

Chris Young: I think that's the last bullet.

John Thelan: That's it.

Chris Young: Great. Thanks, John. We're going to open up to Q&A right now. We'll have some roving microphones similar to Tom had last night.

I guess I'd like to start off with the first question. So you've been with Costco for quite some time. Clearly, you've been engaged with CHEP for quite some time as well. Can you describe to me how the relationship and the engagement has evolved or changed over time?

John Thelan: We've had some - to be honest, we've had some ups and downs relative to CHEP and - Brambles and CHEP. We've had some quality issues. I'm pleased to say that it's been several years since we've had any serious issues. I'll say this: Tom has had a lot to do with, in our opinion, turning some things around. It's been a very, very good relationship now for a number of years.

What's important to us - quality, first and foremost, is key. You all are walking amongst these pallets when you're out shopping in a Costco. Safety is very, very important to us, and so, first and foremost, quality is critical because of the members of the public that are in and around buying these goods.

Operations comes second. We need to have - you saw that little video. That's how we operate. Everything's got to be on the clock, by the clock, very, very efficient. I'm pleased to say we have a very efficient operation with CHEP, with Brambles. Are there occasions when we're short five trailers here and 10 there? Yes, sure, those things come up, but what we like about our relationship is they take care of it and it gets fixed.

So we're always going to have a few things that are going to go haywire. As long as there are only a few, and as long as they get fixed, we can deal with that. So we've had a maturing of the relationship. We've learned a lot about each other in terms of what makes our company run and what makes Brambles and CHEP run but, by and large, there's a heck of a lot more we see eye-to-eye on.

We do have a mutuality of how do we drive out cost. That's - we're very confident. They're in a low margin business. They've got competition, and so are we. So that's a commonality of whether it's freight cost, handling cost, repair cost, whatever it is, we're in this together. So it's matured. That's, I guess, the way I'd say it.

Chris Young: Great. Thank you, John.

Matt Spence: (Bank of America Merrill Lynch, Analyst) Hi, John. Matt Spence from Merrill Lynch. Thanks for being here.

John Thelan: Yes.

Matt Spence: (Bank of America Merrill Lynch, Analyst) Can you talk about omnichannel and Costco's online offering? How much - what percentage of sales through Costco are online now and how does that change your supply chain? If I'm buying something online do I get it from - do I get it delivered from the warehouse or store? Or does it come from the distribution centre?

John Thelan: The online e-com business is a very, very new business, as we all know. There's an awful lot of folks doing an awful lot of experimentation on what they do and how they do it. In our case it's a relatively small percentage, on a percentage basis, of our total sales that is in e-com. However, it is the fastest growing category that we have within the Company. Our sales growth are exceeding year-over-year greater than 20%, which is a very fast growth.

Having said that, there's a lot we're learning. How is this going to evolve and so forth? Right now we have something - 30% to 40% of what we supply comes through our distribution network. The rest is drop-shippers, where it's going directly from the supplier. That's shifting. Our percentage is increasing within the distribution network.

The amount of square footage we have tied up in e-com is very, very small in relationship to the numbers I put up but, again, it's growing, it's challenging us. What should our distribution network look like now and in the future?

We have a rolling five year plan. At any one time we've set our sights on, okay, in five years where do we think we're going to be? We see some very rapid growth in terms of e-com sales, and we're working within our distribution network and our transportation network on how to accommodate that.

So we've got a lot of irons in the fire, I guess, is the best way of putting it, and what are we going to bring to the party is best pricing. That's what we're all about. I don't see us bringing hundreds of thousands of SKUs, shopkeeper units, to the party. It's relatively small.

The number of offerings we have is not that much dramatically different than a warehouse, so we're honed in on bringing something to the party - quality, value - the same things we do every day. But how we bring them to market and where that market's going - we'll have this discussion five years from now, we'll see. But we have a lot of growth plans, and it's a very good business for us, a very important business for us.

Matt Spence: (Bank of America Merrill Lynch, Analyst) Thanks. And just one on - do you own your own pallet pool? Do you have a whitewood pallet pool that you own? Or are all your pallets outsourced? And how much is CHEP as a percentage of the overall of what you do?

John Thelan: Well, CHEP is by far the dominant player of our pallet pools. We have three poolers we do business with. They're by far the dominant player. We do have some white boards. It's very small. We buy a few thousand when we open a new warehouse. Over time they dissipate, and when they're gone, they're gone. We don't replace them.

We have no real mission to maintain an independent pool. We're happy to see other folks take care of pallets. We've got a lot to do and we're happy to see them do what they do in terms of pallet pooling. So we have no interest in developing a pool, expanding the pool.

We have some needs internally, within a warehouse, where pallets - they would just as soon have us use the white boards because they're going to sit there, whether it's corporate records or whatever it is, low turnover items that aren't turning. So I hope that answers it in terms of where we are.

Sam Dobson: (Macquarie, Analyst) Hi, John.

John Thelan: Yes.

Sam Dobson: (Macquarie, Analyst) Just, if I can ask - I think you had on one of your slides 481 stores in the US. Can you just talk about the importance of scale? Obviously, we've got network advantage up there on the slide. Can you talk about the importance of CHEP scale to your business? And, secondly, just if you can elaborate a little bit more on the quality of the product that CHEP provides.

John Thelan: CHEP's scale is very important to us. We work very hard in our business to keep our business model simple. While we do have competition, they have competition in terms of pallet pooling - we've done that by design to create competition but, on an international basis and a US basis, North American basis, CHEP's big footprint is efficient for us because we don't want to deal with 10 poolers.

So it does work well. And to the extent that there are any issues that need to be addressed, we like to go to one outfit and have them address it. And so our business model of simplicity works very well. We've had the beginnings of some good discussion on global growth. It'll be interesting to see, over time, what CHEP brings to the party in Japan, Korea, Taiwan. Obviously, they bring a lot to the party in Australia.

So it has - we consider it to have - it's worthy of an investment of our time and effort because we think it will work well for them and it'll work well for us.

Sam Dobson: (Macquarie, Analyst) And - sorry, [unclear] if you can just elaborate a little bit more on the quality of the pallets, so in terms of some of the direct or indirect cost to your business with poor quality pallets.

John Thelan: For us, we do a complete inspection, inbound merchandise, to make sure the pallets are safe. We're not interested in looking at blemishes per se. We're looking at safety, so as long as there's a safe board that goes out to the warehouse. What happens after that is their business model in terms of what the repair ratio is. We don't get involved in any of that.

If they knew we were doing something that was messing up their pallets, I'm sure they'd come and talk to us about it. I'm not aware of any activities where we're doing anything that's - I think our handlers are pretty good. That gets into that workforce I was telling you about. We have some very talented people. We like to think we take care of our assets, their assets and so forth. So we like to think we're a good participant with CHEP. We don't know anything to the contrary.

Unidentified Participant: John, just on that [itself, is it safe to say] though when we were struggling on quality you would reject a truck load?

John Thelan: We would. And there is nothing that gets anybody's greater attention than kicking truck loads of inbound merchandise because of pallets. That takes care of things real quick. In this instance it did. We were talking several years ago.

Anthony Moulder: (Citigroup, Analyst) Can you talk to some of the initiatives that you've put through that have saved - with CHEP - that have saved your customers money?

John Thelan: An example would be right now we're bringing all of the pallets back to our depot system. You saw the numbers on where our depot system lies and where the numbers are. I didn't put up the geographic map, but we're distributed across North America.

Historically, we brought all those pallets back to a depot and they, in turn, pick them up for one of our - we call our distribution centres depots. We started now - probably four or five years ago - experimenting with what we call market direct. Rather than have CHEP bring their boards back from Minneapolis back to Chicago - only to turn around and ship them back to Minneapolis for 3M or whoever - General Mills or whoever they're doing business with - we've devised methodologies where they're picking them up at those warehouses, remotely, and then they're going directly out to one of the CHEP customers.

No question that takes cost out. And we like to think our suppliers are pretty good negotiators and they're going to make sure that they're working with CHEP on what is the best possible price. So that - it doesn't sound like a lot, but it is a lot, to the extent that we can all reduce transportation costs. It's a savings to us not to have to bring those pallets back to Chicago. It's a savings to them not to ship it back out to some remote place.

We're doing that in Denver. We're doing it in several markets now, but it started as a working relationship with CHEP: what can we do to drive out cost? It starts as an idea. It starts as a pilot. And that's one of the reasons, frankly, why I'm here, is that our partnership is very important to us.

Anthony Moulder: (Citigroup, Analyst) The same question related to loss rates. How have you helped your customers reduce their loss rates through CHEP?

John Thelan: We sell a lot of merchandise in large quantities. We sell a lot of truck loads of merchandise. It came to our attention through their - they do an annual audit of what their accounts are to make sure they balance their books in terms of pallets. There were some shrink factors that were building up, and so we started working together again on, well, if we're going to be selling truck loads of water in the north-east and it's on a CHEP board, we need to have a way for those pallets to come back to CHEP. That's part of our partnership obligation, to respect other people's assets.

So we put together a plan of attack so that they would know who's got these pallets, and then whoever bought the truck load would know that they have an obligation to make contact with CHEP to get them back. So we've been able to make some progress on reducing shrink by those kinds of efforts.

Anthony Moulder: (Citigroup, Analyst) And a last question, if I could, around plastic pallets. I think quite a few retailers that I speak to are very encouraged, or very supportive, of the idea of plastic. Where do you see plastic in your supply chain? Is there ever a point at which we need more plastic pallets?

John Thelan: Well, we hope so. We need to be prudent from a money perspective. We're not going to make a demand and say we want everything to be plastic and drive up our costs. We're not going to do that. There is a couple of reasons why we like plastic pallets. One I alluded to earlier.

You're all walking around our warehouses buying a lot of stuff - I hope you all are - and we want you to be safe. You can have wood breakage and whatever. There can be some little bit of a hazard with that, so the cleanliness and so forth of a plastic board is intriguing to us.

The other one that I mentioned is our employee base. If you're a lady that weighs 110 pounds and you've got to move around a pallet that's 65 pounds, that can be a challenge. A plastic pallet inherently has less weight, and we know that our employees prefer it because they've got to deal with those pallets out on the floor.

These folks know that we favour plastic pallets, but it's got to make sense. So we believe, over time, there'll be certain channels of our business where you have a sufficient quickness of turn that, perhaps, it can make sense, economic sense, for everybody: for our supplier, for us, for CHEP. We're hopeful that that evolves. We believe it will evolve over time, but it will be an evolution. Does that answer it? Yes.

Cameron McDonald: (Deutsche Bank, Analyst) Just two questions. Can you give us a little bit of insight as to what you're seeing regards your underlying sales volume in North America? And then, secondly, associated with that, what you're seeing in the supply chain with regard to inventory velocity and inventory turns, and how quickly that inventory's turning over and what the trends have been over time as you've tried to drive efficiencies in your supply chain? The question goes to the heart of what CHEP's strategy's been about, trying to have higher pallet pool velocity.

John Thelan: Well, there's - I'll give you some response to it, but I'm not going to quote a bunch of numbers. They're private to us in terms of exactly what a turn is and so forth. But this is another example where we have a mutuality of interest, to the extent that our inventory turns - and we don't really have much inventory cost at all because our inventories turn so rapidly within Costco. It's something that we look at on a monthly basis as to what is our inventory turns.

It's a mutuality of interest to the extent that our products turn faster. They have repetition to rent their pallet again, and so the more our inventory turns, it lowers our inventory cost, the more opportunities they have in terms of rental of a board. So we have a lot of commonality of interest in terms of inventory turns.

In terms of exactly what those numbers are, our inventories are turning faster now than they were five years ago, I can tell you that. It is something that - it gets back to that comment I made earlier about a price that falls by $0.40. $0.40 doesn't sound like a lot, but we can sell a lot more merchandise. That increases the inventory turns.

Our sales per location is growing year over year over year, and it puts more pressure on what merchandise wants to be in a warehouse and what are our weeks [to] supply. I mean we've historically talked about weeks to supply. Now we talk a lot about days of supply as opposed to weeks of supply. So inventory turns are very, very important to us because of the cost. We don't - our account payable ratio is such that we don't really have a lot of inventory cost because we're selling it before we have to pay for it.

Paul Butler: (Credit Suisse, Analyst) Hi, John. Paul Butler from Credit Suisse. You mentioned that you deal with three poolers. I just wonder whether you can compare the experience that you have with those in terms of the quality issues and service levels.

John Thelan: Well, the three poolers are CHEP, PECO Pallets and iGPS, which is a plastic pallet. Our experience with all three is very good or we wouldn't have three. Everyone's taking care of us. From a quality perspective each one has its own issues, if you will, relative to quality. One's not without some challenges relative to quality. Each one has its own challenges relative to operations but, operation-wise, they're all running fine from our perspective.

I mean we've created this - it's real simple. It's for purposes of competition. We know enough about merchandising in general that competition's very healthy. It causes people to be very creative in terms of what they do and how they do it and it's alive and well relative to the pallet pooling business.

Paul Butler: (Credit Suisse, Analyst) Can you just comment on - I mean you were talking about the benefits of Brambles' scale or CHEP's scale to your business. Is there a significant difference in the cost within your business of dealing with poolers that...

John Thelan: I'm sorry. Can you repeat that part?

Paul Butler: (Credit Suisse, Analyst) Sorry. Is there a difference in your internal cost in dealing with each of those poolers dependant on the scale because, obviously, CHEP has got the larger scale? Are they cheaper for you to deal with?

John Thelan: We don't really - we're not really privy to what someone's paying relative to their pallet or cost. It's buried in their cost of goods. There's no separate line item that we ask to see...

Paul Butler: (Credit Suisse, Analyst) Sorry...

John Thelan: ...so we really don't know how that works.

Paul Butler: (Credit Suisse, Analyst) So referring to your logistics cost...

John Thelan: Oh.

Paul Butler: (Credit Suisse, Analyst) ...the cost of you dealing with...

John Thelan: There isn't any difference that - yes, we have market direct programs with all the poolers, like that market direct [...] I was talking about with Minneapolis and so forth. We have it with all the poolers. So we do that with anybody who comes to us with a good idea to drive out cost. These boards are inspected, put on outbound trailers. We'd be colour blind. I mean it just doesn't really - there's no big difference to us, for us.

Nick Markiewicz: (Morgan Stanley, Analyst) You mentioned you're in the business of pennies. How does that translate to your pricing discussions with CHEP each year?

John Thelan: I'm sorry. I had a hard time hearing that first part.

Nick Markiewicz: (Morgan Stanley, Analyst) So I was just wondering if you could comment on, I guess, pricing discussions with CHEP and how you go about those each year.

John Thelan: The processing?

Chris Young: Pricing...

Nick Markiewicz: (Morgan Stanley, Analyst) Pricing, sorry.

John Thelan: Oh, pricing. We don't get involved in any pricing discussions with any of the poolers. It's up to our suppliers to hammer that out, so to speak. It's not something - we don't interfere with it. We don't participate in it. That's why we created the competitive environment. We just let them make their own decisions about how they chose one versus another and so forth and so on.

Nick Markiewicz: (Morgan Stanley, Analyst) Sure. And could you describe the health of the US consumer at the moment, as you're seeing it?

John Thelan: The health, for us, is good. Chris mentioned what our retention rate is relative to members. Our membership retention since the issues of '08 have done nothing but go up. Every year we have a modest increase in what our retention is, which tells us that people want to save money. That's - they're not coming to us because it's fashionable. They're coming to us because it allows them to maintain a great quality and save money whether they're buying a fine wine or whether they're buying paper towels. Whatever it is, they're only coming to us because - or prime beef or whatever the item is.

So I mean our growth is good. You read various things - you guys are experts on all this in terms of international currency and so forth and so on. Our comp sales, when you take out foreign currency impacts and so forth, are very good. They're very good by comparison to the rest of the retail business.

So we believe we have a good bright future, and we're doing fine relative to economic growth. We're expanding locations at a slightly higher pace than we were five years ago or 10 years ago in terms of building new warehouses. We think we still have a lot of growth in North America but, equally important - or, perhaps, more important - we have a lot of international growth.

Chris Young: So, John, to add to that, that comment about international growth: so how much of your growth in the future do you think is going to come from an international base? And what type of complexity does that drive within your supply chain or with the consumer as well? And how can CHEP be more relevant in that space?

John Thelan: Well, the growth piece is a real challenge. You don't just waltz into a country and - they're not sitting there waiting for you. I mean I think - I don't want to be disrespectful to one of our competitors, but when Target went into Canada, maybe they thought they were all going to just wait for them to come in, and that wasn't the case.

So we take the decision to go into a new country very, very seriously. We realise that you all wouldn't be very friendly to us if we went in and then left, and so we take it very seriously in terms of it's a commitment. We're going to be here. We're going to stay here. We see a future.

I think I've said it a little bit. In terms of your folks' footprint from Brambles and CHEP, having one less issue to deal with in going into a country is very valuable to us. We've got enough to deal with. So if we know that we're partners with a pooler who can take care of us on exporting North American goods by providing us an adequate supply of hardwood boards, then we can take our top items and ship them from North America to Japan, that's a beautiful thing. That's one less thing that we need to worry about. We've got plenty to worry about. So there is a synergy, and it is important to us to have this relationship.

Will Charleston: (Goldman Sachs, Analyst) John, Will Charleston from Goldman Sachs here.

John Thelan: Yes.

Will Charleston: (Goldman Sachs, Analyst) Just - are you - do you demand a certain number of your suppliers supply on CHEP pallets? Or are you really indifferent between whether they supply on a CHEP pallet or one of the competing pallets?

John Thelan: We are indifferent. We are indifferent. It doesn't - it's entirely up to the supplier who they choose and why they choose them. They have their own reasons on why they make those choices.

Matt Spence: (Bank of America Merrill Lynch, Analyst) John, Matt Spence again, if I can? So you've got three pallet suppliers into the US. Can you just talk - you're expanding a lot offshore. What's the policy offshore? How many pallet suppliers have you got in other countries?

John Thelan: It's a good question. It's an evolving policy. We have some of our poolers who are participants in Mexico and in Canada. That'll - there's some interest in some of the poolers to go into Europe. CHEP is our dominant international partner by far in terms of exporting to either Europe or to Asia - both. We're working together with CHEP on trying to develop - I'll take Japan as an example.

We talked a little bit about this earlier, that in these countries you can have different platforms. [Unclear] than what we have in North America. So we've got to work with our suppliers on why do we want them to re-use a CHEP board in Japan. We're exporting an awful lot of goods from North America to these countries. I don't think I mentioned that, but that's a big part of what we bring to the party, is North American quality.

There's a real thirst for North American products in these countries. That's very common in terms of any country we go into. So having a partner with us that can - we can export those goods is important to us. But it's at an early stage. I mean the maturing of their global markets isn't anything like what we have in North America, so it's still somewhat of an infant stage.

Anthony Moulder: (Citigroup, Analyst) Anthony Moulder from Citigroup again. Just one question around your back docks. Who controls those back docks? Is that an opportunity for CHEP to work more with TPM through your back docks?

John Thelan: We're pretty - I mean we're prepared to talk to them about anything that can help drive out cost. At the moment we're bringing boards either through that market direct program I talked about, where they're being left in the market, or they're coming back to our depots. When our trailers come back to us within the depots we have, recently, a very significant recycling program within Costco.

We were previously, and historically - we generate a lot of cardboard and a lot of plastic film at the warehouses. Each region was doing their own thing and selling that off. We went through a program - now two years ago - where we're bringing back all of that product and we're exporting it directly, largely, to China. So these trailers have a need to come back to our depot, so they're bringing back recycle.

We also have, in the infant stages, a reverse logistics program. Historically, all of the member returns are dealt with at the individual warehouses. That's changing, and we're going into the reverse logistics business. So we have return merchandise that's coming back to our depot system, then being returned to suppliers in mass quantities.

So our logistical program is changing, and it'll continue to change. So within our business envelope we're always prepared to talk to CHEP about what can make sense for them, what makes sense for us, but it's got to make sense for both of us.

Chris, how are we doing on time?

John Guadagnuolo: (Antares Equities, Analyst) It's John Guadagnuolo speaking from Antares Equities. I just - on what you were talking about - the exporting from North America. I know CHEP talk about moving things around internationally on the pallets. Have you looked at that? Are you - so when you manufacture something here, for your Kirkland brand or something like that, can you put them on to the CHEP pallet and then put them into a container and them take them off at the port at Great Britain and use them there because you've obviously got different standards. How does that work or do you have to...

John Thelan: That is in fact what we do and our suppliers would be working with CHEP because in the case of exporting from North America you need to have it on a hardwood board. So there needs to be a segregation and a business understanding between CHEP and whether it's a Kirkland Signature manufacturer or whoever it is so that they have the right board for export purposes.

We've been very successful with CHEP working with them on that. That's another part of our partnership and we try to work with them on when they're going to be bringing these boards - I'll come back to Japan - within Japan what can we do within our buying community to introduce CHEP to the Japanese suppliers so that they can have an entree? Our relations with our suppliers are pretty darn good. They like the Costco business. So when we ally with CHEP - and I'll just stay with Japan - it means something to those suppliers that Costco's asking that supplier to look at CHEP. Now CHEP's got their part. They've got to have a competitive price but the fact that we're asking a supplier, they're much more apt to sit back and pay attention to what we're asking because we're not just some bystander down the street. We're buying a lot of merchandise from these folks.

Anyway again it's in somewhat of an infant stage, maybe a little more than an infant stage but it's at a very early stage in developing these global markets but there's a lot of positive synergy, a lot yet to do.

Chris Young: I might just throw another question out there, John. As you look to the future, as you look to your growth, as you look to improve the customer experience, reduce complexity, drive out costs in the supply chain, what type of innovation is Costco employing to meet those future needs?

John Thelan: All kinds of things. We're constantly looking at anything we can do that can drive out cost. The quality piece, our buyers take care of us in that regard. In my end of the business whether it's - I oversee our traffic group and we could be delivering direct to a warehouse. It doesn't go through our depot system. We have no mandate to bring merchandise through our distribution system. If a buyer can bring the product directly to a selling warehouse at a lower cost, that's what they do.

Chris, we just have a lot of initiatives and you folks are a big part of several of them.

Tom Gorman: Well I might just wrap up then and just say John and Chris and really Peter and Kim, thank you very much, John, on behalf of the group here. I think that hopefully the audience has gotten to pick up a little bit and maybe I'll just add a few comments. Number one, as a company we're privileged to work with great retailers around the world but I can honestly say and I wouldn't just say this because John is here today, there's no retailer that we have greater respect for and there's no retailer that we work in a more honest and transparent way.

I think John really sets the standard in terms of fairness. You said a number of things which I would violently agree with and then you said one thing which is competition, we all like competition, which I would violently disagree with but there's no question, John, that...

John Thelan: It's a good thing that you're in disagreement.

Tom Gorman: We would like to take the word dominant and make it complete dominance with you but it's rare that you can work with a partner that actually makes you better every day. I think that from a CHEP, from a Brambles perspective there's no question that around the world Costco makes us better every day. We have worked very, very hard on our relationship with you and even back in the days when we weren't always holding up our end of the bargain you guys were as open and honest as you are today.

On behalf of my team from Brambles and on behalf of all of our guests here today, Chris, thanks to you but John particularly, thank you very much for your candour, your willingness and your insights. Thank you very much.

John Thelan: Thank you.

James Hall: We'll break for a quick coffee and snack break and then be back at no later than quarter two please. Thanks.

[Break]

Peter Mackie: I've got one piece of housekeeping that James has delegated to me so for those of you who are already thinking about lunch I think the schedule says do it downstairs but actually the lunch is going to be laid out up here so don't disappear downstairs because you'll miss it, you'll miss it up here.

First of all on the Costco session, thanks for everybody's questions. It actually saved us making up a whole load and at least you heard what you wanted to hear from John. I think there's one piece that he didn't touch on. I don't think it's in his nature really but Costco are doing very well here in the US. I think his question on volume is that they're growing very strongly. They're also growing share quite strongly here in the US. That's good for us as well in terms of our relationship with them. It's very good for growth in that perspective.

Then I think the other question that was asked, I think, Anthony, you might have asked it, about plastic pallets. John also was a little bit coy on that. We are actually in an active trial with Costco on plastic. What we've identified is pretty much what he said, that there are some possible circuits within Costco and those sorts of stores where fast moving high turning goods, the economics do look good for everybody concerned. He didn't allude to it but we're in the middle of active trials with them, in answer to that question.

Unidentified Participant: [Inaudible question].

Peter Mackie: It's good. What he said is fair I think which is look we've always said and I think we said about iGPS, we couldn't see the economics working. The key thing with Costco was that we did an audit a couple of years ago, it wasn't a great result and we were also talking about plastic at the same time. We just had a very straightforward discussion and you'll see how that's possible with John to say if we can get the controls better here in the network then we're open because we think in some of these circuits it makes sense for everybody. It makes sense for everybody so the pricing will give us the returns that we'd be looking for and drive value for everybody concerned. Yes, it wouldn't be pricing below what we get, the returns in the current business.

The economics are around - it's an expensive asset but it would move very quickly in those particular circuits. The damage is less so that's what makes the economics work for us. Then for them it's just less wood debris, safer in the stores as he kind of alluded to. For the manufacturers there's also a bit more certainty in production especially in automation with plastic. Around those guys we can see it working but for some very specific segments.

On to the main session today. It is a real pleasure actually to be here to talk about the CHEP pallets business but we're growing strongly despite I think the economic headwinds that we've experienced in the marketplace. The margins remain very strong and actually our position in the marketplace is also very strong and actually getting stronger in terms of the quality of our position.

When I look here at the FY15 scorecard you'll see that the financial performance I would say was solid over the period. We had some CapEx towards the end of the year associated with new growth that came on which sort of impacts the scorecard but actually is good news for FY16.

The red dot on here, we had a very sad loss of a CHEP employee in a truck accident in the US business but I also want to call out the huge improvement in safety that we continue to make in the business. The reason I call out that improvement in safety is it's a strong barometer actually for the strength of the leadership, especially at the plant level. What we find is that where there's strong leadership at the plant level not only do you get good safety performance but actually you get good productivity performance, good quality performance as well. It's an important call out albeit that we did have a tragic loss of life in the business over the course of FY15.

The other piece here is also around employee engagement. Some of you interact with some of our staff around the world and hopefully what you find is that they're hugely engaged. These engagement scores improved slightly and we're very close to the high performance norm. The reason it's here in amber is because in all these things we aim for upper quartile or above and we are not quite at the upper quartile there. We're very close but not quite at it.

Hopefully as you see from the people that you interact with in our business we have very engaged employees in the Company.

This is a great business. It's a great business but success actually for the Group, Brambles, actually demands that we grow this business. We have great quality of returns and we've produced some decent quantity in this business but really there's a real demand to grow this business for the Group.

Now as I said in some of the conversations last night there is also an opportunity to improve the quality of returns within this business. There's not a single doubt in my mind around that but it's important to be really clear and hopefully you pick it up in the way that we interact with Costco. The way we're going to improve the quality of returns in this business is actually to deliver more value for the customers than our competitors do. You've seen how Costco look at the pooling competitors here and you get some sense as to how manufacturers will choose who they use. The key to driving the quality of returns here is about giving more value than we're currently delivering today and value ahead of where the competition are.

This next section of the report, you'll see elements of quantity and quality and how they interact together but the real focus is how do we drive quantity in actually a really strong business? There's three. There's three key ways to drive quantity in this business almost regardless of the economic headwinds that we might experience. The first one is key; investing in customer retention, seizing new ground in existing markets but also continuing to grow this business geographically. I'm going to touch on these three areas of growth actually over the course of the first half of this presentation.

If I talk first about investing in customer retention we have an incredible customer base and it's constantly under threat. The first job here actually is to keep what we have and try and improve what we have. Then in terms of seizing new ground in existing markets we've talked to you about a number of initiatives, a number of new solutions but fundamentally, as you'll see, this really is about converting from whitewood to pooled in a number of our markets. As I'll show you, that's where a lot of the absolute growth is going to come from over the next five years.

What you'll also see is the areas that are actually going to have the highest rate of growth are in some of these areas of new solutions especially around fractional pallets and how we apply them in today's store formats but also in this escalation of store formats that we're seeing in omnichannel around the world.

Extending our global network, it's very simple, it's been the recipe for this business since it began, which is entering markets really as the modern retail trade begins to get going and they see major headaches in the pallet solutions that exist in those markets. It's about us coming in, solving those problems and growing very quickly and growing our network very quickly in those new markets. We continue to look at new markets that we're able to do that.

If I start with the customer retention so priority number one here, customer retention. We haven't previously shared NPS data with you but I think it's quite important to see the trends and also now we benchmark here.

If you look at this chart the fundamental piece behind it is that over the last three years in nine out of our 10 top markets we've improved customer satisfaction. We've seen an improving trend in nine out of those 10 markets. Now those 10 markets represent about 75% of our revenue base so those 10 markets are pretty key to retention. What you'll also see is those 10 markets are also our most competitive markets around the world.

What you'll understand is that the 10th market in that 10, it went backwards slightly but actually it's already at the high performance norm. Across all the markets that we survey here those that are in amber or red, the majority of them, we've got a couple where we still need to improve but the majority of them are either at upper quartile performance or are actually best in class performance.

The trend is one thing and actually it's an important thing that we look at market by market to understand that we're seeing an improving trend in terms of customer satisfaction but also seeing how we benchmark against other B2B firms is important. This is where we currently stack up in the stat metrics B2B benchmark. 80% of our markets actually are either at or above the mean. Well it's actually 85% at or above the mean. As you'll see here around 50% are in the upper quartile against the benchmark and a small number of these markets are actually at best in class performance.

From our perspective when we look at these benchmarks we're making some great progress but we're still not upper quartile in all the markets in which we operate and best in class in our most competitive markets. From our view there's still some way to go.

Now these surveys, we've been taking them really for a number of years and I think we might have mentioned this in the original Better Everyday, in the original starting of the Better Everyday. The most important thing out of these surveys is partly understanding the trend and how you benchmark but it's more important what customers are saying they want to see different to move forward, what does it take to get us into upper quartile performance in those markets. There's a very clear message from customers over the course of the last couple of surveys here; one, get simpler and add more value than you're currently adding today.

What I'm going to talk about on the next two slides is actually how we're addressing that, how we're getting significantly simpler than we are today. We're making some real progress which some of you may have seen in the video but we'll show that again in here.

The first part of this being simple is around IT investment. We're making some fairly big IT investments and we have done in FY15 and will continue in FY16. Actually we go live this month so in a couple of weeks we'll go live with a new system, a new self-service system for customers which I'll show you a video of in a minute. It really does make life significantly simpler for them. It's much more intuitive, it's much faster and the key piece of this is around mobility. It actually enables customers to do it in the middle of their operations so rather than carrying paper around which they currently to today, they're actually able to work with us in a more mobile manner.

On the invoicing side, many of you will have spoken to customers and you'll understand the challenging of invoicing in this business. We are a high volume transaction business and there isn't getting away from that. There's a huge number of transactions in any given month and what you will have seen is that some customers have invoices that are the size of Pasadena's phone book here so they're big invoices.

We've been working with a global provider over the last six months on actually a new electronic invoice that's completely interactive. It enables customers not to go through all of that paperwork to check their invoice but in a much more interactive way reconcile their invoice and get to the answer much, much more quickly than they can do today.

We've tried it with a number of customers and they are really excited about the prospect of getting their hands on this. One, it's making life simpler for them but actually from their perspective it's saving them a huge amount of time and effort running through the invoice and getting to the answer that they need to get to on the invoice.

I'm about to show a video. We decided I think with James' help that I would do a voiceover to this video rather than try and lip sync. Could be the biggest mistake I ever made but we'll give this one a go.

You'll see these two things to some degree in action in this video. It's on the screens there and I think we put it also onto your hard drives and you'll see more of this from us as we begin to roll it out but customers are going to be beginning to see this this month. Some of this functionality will be going out globally but to a small group of customers in a number of markets.

We're taking the customer experience away from this so away from faxing in orders, away from hold music and telephones in the middle of business operations. Lots of admin costs for them, lots of carbon copies in the field with drivers and lots of admin costs for us and of course the Pasadena phone book for all of our customers.

The IT investment actually brings a system to customers that is much faster. It's much easier to use, it's much more intuitive and the important thing here which you'll see later is how mobile this technology is. It enables them to judge our performance, enables them to order really quickly, look at their supplier performance, actually get an overview of the account and really be able to sit down together and actually understand how to take cost out using this.

Now in today's connected world this next bit is really important. The technology that we're putting in place here enables them to track where their truck is and you'll see a bit more of that on the video screens out here. They can see in real time when the delivery's going to arrive so no phoning up, no chasing. They'll actually get an understanding of where their truck is.

This is a key bit for us, actually being able to get a proof of delivery, electronic, in real time straight onto the system. A lot of our inbound queries from customers are actually around chasing paper copies of proofs of delivery. This system actually will enable them to get that for themselves offline as soon as that docket is signed.

The key bit here is actually being able to use this in the middle of the operations. This improves significantly the accuracy of the data that's coming onto the systems and the speed at which it's coming on, which when you come down to sit at the invoice here and look at this new interactive invoice not only is the data better and less queries but it's much easier to interrogate and reconcile the invoice.

Customers are going to see a lot more of this over the coming months and the beauty of this platform is that we can throw a hell of a lot more functionality into this space.

If we move on to really the second part of the simplification journey here, over the longer term we're also doing a couple of other things which will also make a fundamental difference to the experience that customers have with CHEP.

The first area is pricing. Many of you will remember that we made quite a big overhaul of our pricing structures in Europe and around the world about a decade ago. It was absolutely essential for the business but it did create a lot of complexity and it did make some of our customers a little crazy. We've redesigned the pricing structure but importantly here it's about giving customers more choice in the way that they're currently priced and the structure. It removes complexity, today's complexity from the pricing structure quite significantly but it doesn't lose the fundamentals of activity based costing within the pricing, which is key for us in terms not being cherry-picked but actually is important for the customers in order for them to be able to understand how they can change their activity to also save cost.

One of the other key changes in the FMCG industry is our customers both manufacturers and retailers are working with GS1, the global standards organisation, really on a standard data transfer mechanism between manufacturers and retailers and suppliers also into manufacturers. We're now embedded in that standard protocol so all of our pallets are in that protocol and this is really the Holy Grail. This is how do you get your data really accurate and really timely and take out as much human intervention as you possibly can, which in a high transaction volume business Is absolutely key. We're putting in place a task force here really to try and accelerate our integration into our customers' systems using what is now this standard industry protocol.

Overall customers are going to be able to see the difference quite quickly but really over the course of the next few years we're going to move away from a complex customer experience to a much simpler customer experience. It's a fundamental part of keeping hold of the attractive business that we have today.

At the end of the day the reason customers will switch here is it's simpler for them, it's definitely easier for us but it actually takes cost out for both of us. Removing all of this administration takes out cost for everybody concerned and be in no doubt that in this business right now it's cost that really matters.

This next piece for us around customer retention, it's been really clear about what we're doing to get more cost competitive in our supply chains, how do we improve our own supply chains?

I've seen a few people around the pallet on durability but there's some principals here about how we think about the business that I think are important to get across. What we're aiming to achieve with all of these things is better performance for the customer and also lower cost. What you see in the pallet design there is that pallet will actually work significantly better in our customer operations. A more durable pallet works better in automation, works better in high bay racking so the performance of the pallet is better but it delivers a lower repair cost for us. Kim will talk to that a bit more.

The other key principle of our cost competitiveness here is taking the lessons that we've put into that durability of pallet and actually translating it to our other pallet types around the market. It doesn't translate exactly so each of the pallets in each of the markets has different characteristics in terms of where we can improve the durability but we're actually looking to translate the concept that we've come up with here and proven and take it to our other markets.

That same principle is true when we think about plant automation. I think in previous sessions some of you will have seen us work out how to automate our most complex repairs so our most costly repairs to do manually. What we've worked out is for the European pallet so for the 1208 pallet we can actually more cost effectively do the most complex repairs on that pallet in an automated way with robots. The important part of that is it also produces more repeatable quality for the customer from doing those kinds of repairs as well as taking cost out for us.

A part of the $100 million that we committed to and delivered was the roll out of this automation in the European pallet. We've now come up with a solution for the UK pallet working with the same vendor on the design for how do we do the most complex repairs in the UK pallet in an automated way and the next stage with that, because the UK pallet is very similar to the US pallet, is how do we translate that across to the US as well.

In all of these ideas it's how do we take cost out and improve performance for the customer at the same time and then how to we begin to translate all of these around our markets worldwide.

At the end of the day we can make things simpler for the customer and we can get ourselves in a much better place from cost competitiveness but the thing our customers are asking us for is how do you bring us more value? In those markets where we've already brought them strong value through pooling it's a question of how do you bring us more value beyond pooling?

Now Kim is going to talk quite a bit about this next section and actually what we're doing with some fairly major global customers in the US on bringing more value beyond pooling but what I thought I'd do is maybe just share this example with you of the European business. I think we may have talked about this some time ago but this has been growing and growing. Around the world we work with customers one-to-one in the way that we do with Costco but we also organise industry forums to be talk about how do we take cost out?

This is one of the subjects in Europe that we've been running through an industry forum here, which is to say we have visibility through our data of a whole lot of empty running that's going on in the supply chain, how do we bring everybody together with CHEP to start matching lanes and taking out that empty running? What we do is we take out a huge number of empty kilometres in this case, we improve the carbon footprint, our own carbon footprint but also the carbon footprint of our customers and at the end of the day we also save money that carries on year-on-year.

Now the figures that we have on here, the majority of that is CHEP numbers so CHEP benefits directly from this in terms of the transport rates that we get. What we have less visibility of is the benefit that customers get. What we know is that when a customer comes on to this program they stay on the program and more customers are joining. I think the number of lanes on this program grew about 20% year-on-year so we know we're having an impact although we don't have a complete handle on exactly what it is that customers are saving through this program.

This is one example of the many things we're trying to do to bring value beyond pooling taking advantage of the network we have. Kim will talk a lot more about what we're doing here in the US.

At the end of the day it is critical that we keep the customers we've got. We have a very attractive customer base here and all of these things, being simpler, being more cost competitive, bringing value beyond pooling are really critical to making that happen because everybody wants the attractive customer base that we have. You'll know that for sure.

The question then becomes if you can keep what you have what are you going to do to grow beyond that? The first piece and really the largest piece for us over the course of the next five years is seizing more ground in the markets that we're already in today. There's some appendices in the pack that will show you the wide space for us which is still significant in almost all of our markets around the world. I thought this chart might help give everybody a little bit of a perspective as to where we are.

The left hand chart here shows actually where was the contribution to growth over the course of the last five years to '15 and over the course of the next five year plan, what are the sources of that growth over the next five year plan.

It's worth saying on the left hand chart it's a little skewed because that includes the acquisition of the IFCO PMS or now our CHEP recycle business but fundamentally over the course of the last five years the growth has come from converting whitewood to pooled. We still have huge open space there, a strong value proposition and we're still growing very, very strongly in that space and really over the last five years a small contribution from new solutions. Growth rate's very strong but actually the contribution relative to that conversion of whitewood to pooled relatively small.

How does that change over the course of the next five years? Really the first thing to note here is looking at the difference between the emerging markets and the developed markets. Because of our entries into new geographies we're seeing these emerging markets over the course of the next five years begin to outstrip the conversion of white to pooled in the developed markets. That's pretty important for us and we see positive trends actually both in the developed and the emerging markets that are actually in favour of pooling versus whitewood.

If you look at the long-term trends in transport cost, timber and in labour they all work against whitewood and they all work in favour of pooling. The three things that we're significantly advantaged in here is one, we can optimise transport better than anybody else in our space, we can actually source lumber globally better than anybody else in our space and we have the scale to put the kind of automation that I showed you into a number of our plants around the world. The trends going forward still continue to work against whitewood and in the favour of converting from whitewood to pooling.

Then also over the course of the next five years the other interesting segment here now is actually the growth of this CHEP recycle business that we have here in the US and Tracy I'm sure got loads of questions on this last night. There's still an opportunity for us to get much better operational effectiveness out of that business and actually better commercial effectiveness out of that business but it is a gem of a business. It's been growing and we have the ability to grow that further and Kim is going to touch a little bit on as we get this thing operationally where we want it exactly what the growth potential is for that business. It is a low capital business and actually we believe we can get it to perform very, very well.

Now to the degree that we're also looking at this concept in other markets around the world, in that whitewood space overall there are still customers that are advantaged on whitewood. The concept here, the reason why we're in the recycle business is because we can actually bring more efficiency to that whitewood management than anybody else can. Because of the unique national footprint that that business has here in the US we're also able to attract national players, national manufacturers who have a national footprint that actually want to source their white pallets from a blue chip company with national coverage.

That recycle business has some strong advantages here in the US and is going to be a good growth engine for us and actually quite a low capital growth engine for us. That model is interesting for us in a number of other markets around the world to attacking that segment of white space that is advantaged in white space so how do we help them get more efficient and better in the white space with this offer.

The other thing that we're looking at, at the moment, is to say in some new market entries where actually modern trade isn't as far developed as we would normally like before we enter is there an opportunity for us to use this low capital whitewood offer to begin to take place in the market and begin to build our network earlier in the market than we might do normally.

The final piece here is around new solutions. A large chunk of this new solution, a large chunk of this growth is going to come in the fractional pallet. So fractional pallets in the traditional store formats but increasingly actually to try and deliver into some of these convenience store formats that are also beginning to grow in that segment.

The value case here is very strong. It's strong in two very different areas. So the first one is around replenishment in the store. So if you look at store labour costs some of our retail customers have wage bills in the hundreds of millions and some of them actually wage bills in the order of billions. So actually being able to take minutes out of the time that it takes to replenish in the store is actually a significant value case. What we've proven in other markets is with an improvement in on shelf availability that you get with that improvement in replenishment actually you also drive sales uplift as well. So the value case is very strong in that area.

The other area where the value case is strong is in promotions. So you've seen the trend in promotions across retail, especially in the economic environment that's existed in the last few years. So promotions is an important part for retailers but it isn't particularly effective and it isn't particularly cost effective for the manufacturers. So fractional solutions in this place enable them to move those promotions much more quickly at a lower cost through the network.

So what we know - and we know this from markets where we already operate with these platforms - there's a strong value case. The challenge in all these markets is getting the change to happen. Getting the strong advocates on board that really make this happen. We've experienced in markets like Germany and also in markets like Spain where you have an advocate that wants that value case then all of the others will follow. So a lot of our work at the moment is building those advocates in the various different markets around the world. But fundamentally the growth here comes from Europe, it comes here in North America and then it also comes in our Australia/New Zealand business in this space.

But look, an important driver of that switch between emerging markets and developed markets in terms of where the growth is going to come from moving forwards has been our prior investments in entering new markets. We need to keep that going. So although the new market contribution to this is actually very small over this plan period it's important to keep that going both from the future pipeline of the business but actually also in terms of extending the competitive advantage that we currently have today by opening our network into more countries around the world.

So my final slide here on growth is really talking about the new markets that we're entering into. So we've been active in Russia now for some time. We have now got a team on the ground in Russia. We got approval in February from the Board to formally start putting capital on the ground in Russia and we're working actively with all of our biggest customers on the case for change and actually at an industry and government level on the case for change in Russia. The opportunity there for us is very strong.

In fact, Russia over the course of the five year plan is likely to be about 60% of the growth that we'll see from all of these investments.

Now the key here, the key for Russia, the key for what we're doing in Latin America and the key for what we're doing in Africa is that we are now in a position globally to extend into these markets from really quite strong regional headquarters. So we're able to leverage the talent we have regionally and actually also our fixed costs that we have regionally to begin to enter into some of these contiguous markets.

So if we take the Southern Cone of Africa, customers in the Southern Cone of Africa are wanting a more seamless network across that Southern Cone. Very similar to the demand that we had from customers around Eastern Europe and the demands to move into Eastern Europe to make their supply chain networks flow more seamlessly. That's what we're doing in the Southern Cone. So we're making some great progress already in connecting their supply chains in the Southern Cone of Africa and very similarly, actually, in Latin America. So the opportunity - we recently got agreement from the Board to enter into Peru and we have a small team on the ground in Peru. So albeit as an absolute opportunity in its own right it's about a $40 million to $50 million addressable market but the key for us is how it helps customers connect their supply chains in that Latin America region. So we have strong business there, a strong network there already but Peru is really quite important for us.

Peru is reaching that point, as some of these countries in the Southern Cone of Africa are, of real modern trade beginning to have real problems with white pallets. So they're very keen for us to come and start making the change in that market.

Now I would have loved to have included Colombia on this slide in light blue. We're finding some geographical challenges in Colombia, so we're running pilots at the moment in Colombia to say how do we overcome some of those geographic challenges to add Colombia into our new market entry.

So the only one here that stands out as a little bit different is Nigeria. So in Nigeria, look, at some point in the future Nigeria will be the hub of our West African business actually in a similar way that it is for many of our customers around the world. But as some of you will know, it is far from a modern retail trade market. So our entry into Nigeria is going to be very, very selective. Maybe a surprise to some of you but their per capita consumption of beer is one of the highest in the world. We're beginning to work with the beverage industry in Nigeria to say actually how can we make pooling work better within the beverage industry in Nigeria.

Look, the other thing we're contemplating here is what I talked to previously about is there a low capital whitewood management that we can do here actually to help the supply chain work a bit better and get us on the ground in Nigeria without necessarily putting out the full pool in Nigeria right now.

So look, we've talked about customer retention, seizing ground in new markets and also what we're doing for the future development of this business in terms of entering new markets. Look, hopefully what you'll see is that we're making some real investments, focused on both quantity and quality. But what we know is that if we focus on the quality with these customers we get the value equation right then this growth comes. Actually the reality of this chart is that 80% of the capital that's going in here is actually growth capital and the 20% there is around some of these other investments, both investments in cost competitiveness and actually investments in these new simplification systems.

Okay, so look, that's the end of the presentation. I'm very happy now to take all the questions you might have, either on the presentation itself or on anything else you want to know about pallets globally.

Simon.

Simon Mitchell: (UBS, Analyst) Peter, Simon Mitchell from UBS. Peter, can you just touch on the European business given the next session's more about US.

Peter Mackie: Yes.

Simon Mitchell: (UBS, Analyst) Particularly around what you see in the competitive landscape in proprietary pooling and also in the whitewood space.

Peter Mackie: Yes look in the - where will I start. Look, I think in the pooling space, if I look at the pooling space, our competitors are in a - well, one particular competitor is in a very aggressive phase. I would say in all the markets across Europe except one our net new wins still remain positive. So we're still winning ahead of the game in those markets.

So the only market where that isn't the case is in the UK. In the UK look, we've chosen - I say this in a meaningful way - we've chosen to walk away from business that doesn't make sense to us. It's hard. It's always tough to walk away from a business. But look, at the end of the day we are significantly better than our competition around the world, we're significantly better than the competition in Europe and their only alternative to gain business is to go in at very, very low prices. At some point you have to say look, you're welcome to that. It takes a lot of digestion and at some point also for them it means that they're not taking business for us that really makes a lot of sense and is very attractive to us. So you will see us, I'm sure, actually choose to walk away from business where it doesn't make economic sense for us but we don't do that lightly.

Simon Mitchell: (UBS, Analyst) Just also on Europe, can you touch on Germany? Obviously a very large opportunity for you which has been a challenge for many years, is that starting to show some positive signs?

Peter Mackie: Yes, maybe I'll answer that question in a couple of ways. The first bit is, look, in this business retail advocacy is really important. So strong advocacy from the likes of Costco and all of those is critical. For our competitors they don't have anywhere near the same level of acceptance that we have in the European market, which makes it a challenge for anybody that wants to use them. But we still have some remaining challenges on advocacy in Germany specifically. So we've moved to a position of good advocacy in Italy over many years and that has been growing very strongly and with one retailer in Germany we've also moved to a very positive position. We've moved from let's try it for a year to we really like the way this is working, we'd like now to do this on a longer-term basis. That has driven some of the growth that we've been seeing in Germany, against the white exchange in Germany.

But look, we still have more to go in Germany. As a consequence of that major player coming across to us some of the smaller players have also opened up. We still have more work to do. But look, the big advantage is look, when you have two big players that actually won't allow you, the economics for a customer of using you for everything else except those two is a struggle to make it work. When you have one of them on board actually the economics begin to shift. Even some of those will say actually we're quite happy to do whitewood into the one that won't.

But look, at the end of the day I think Germany took us more than a decade to get to the position that we've recently got to and hopefully the next one won't take as long as that. But look, they moved because it made sense for them. Their business was becoming more European in nature and they needed somebody actually that could operate more effectively for them on a European basis and we had the network to do that for them.

Unidentified Participant: Peter, you've just talked on one of the earlier slides there about simpler pricing options, can you just talk in a little bit more detail as to...

Peter Mackie: Got you.

Unidentified Participant: Sorry. Can you talk in a little bit more detail as to what specifically has changed there, what the magnitude of those changes are and how we should think about modelling those as analysts?

Peter Mackie: Look, I think if you look at - from a customer perspective it should be a hygiene factor. But it's one that is a negative mark for us against somebody who has less lanes they cover, less of the market that they cover, they can be simpler. This now just moves us to a different level. So we can do a scale of investment in that technology that our competitors can't do. Whether it plays out significantly I don't know, but it's an important piece for us in not having that distracting us from doing many more interesting things with our customers.

So if you take a customer who is spending a huge amount of time on reconciling invoicing, very frustrated with the complexity, it's harder to get them into a space where you say look, let's do some of these things that take cost out for both of us, let's move across to this system. They say look, we want you to fix this thing first before we're prepared to move.

I think in all honesty look, it's a hard thing to model. It does take cost out for us. It takes administration cost out for us. It's relatively small but it's all part of the one better pot. So the simplification does give us some cost competitive benefit as well. But yes, it's more a retention tool that's been a negative for us against the competition and we're not leaping way ahead of them really.

Unidentified Participant: Can you tell us specifically are you taking any of the fees actually out of client invoices and changing any of the other metrics that are being charged for?

Peter Mackie: No. In terms of - look, the principle way we'll change the pricing structure is what they spend with us today they'll spend with us going forwards. So the change in the structure is really purely about simplification but it actually will reduce some of the fee elements that are in there today. But in terms of its impact on revenue, the revenue of yesterday will still be the revenue of tomorrow. So that's the intent with it. It will just make it a lot simpler.

So an example, probably our most complex pricing structure is in Europe and this change actually reduces the elements in that fee structure by about 70% I think. But in terms of the value for them remains the same, the value for us remains the same, but it's just a lot simpler, a lot easier to manage the invoice. It does take out administration costs for them and us but it's not significant in the grand scheme of things I would say.

Unidentified Participant: Then finally on this point, does this unify the pricing structure around the world?

Peter Mackie: No. There's no real intent to do that. We have different business models in different parts of the world. So we've really looked at this US and Europe. So the way we've analysed it and understood it has been consistent. But actually our approach in the two markets will be different, because we are different in those two markets. So it's not about trying to harmonise this thing globally, because I think that would be a stretch too far. Because actually moving customers - even though you put more choice out in front of them - moving customers from where they are today across to a new pricing structure is not an overnight switch to make. So trying to do that on a global basis doesn't really make any sense for them or for us really.

Anthony Moulder: (Citigroup, Analyst) Morning, Anthony Moulder from Citigroup. A question on international expansion. If I remember back to Zurich, I did ask about going into Russia. The answer to that was that there wasn't the legal protection of the assets to warrant going into a country of high risk like Russia. What's changed in that legal protection of your assets?

Peter Mackie: So we've been in there for two years and we've been working with the government, we've been working with the lawyers and we're now confident we can get legal protection of our assets, but it's taken us a long time to get to that point. Look, in all honesty in Russia we're late to the market. I mean it's funny that nobody else has got there before us because we've left it so long. But look, we've spent a lot of time being sure we can do business in Russia, so now we're at the point we're convinced of that and the Board are convinced of that, so it's now about how do we grow that business. Because I mean there's clear issues there in the whitewood systems for us to solve.

Anthony Moulder: (Citigroup, Analyst) But there's no law change that protects your assets, it's just your interpretation of [contracts]?

Peter Mackie: Yes, it's our interpretation of the law and how we behave in Russia as well is important in terms of setting precedent early on in Russia. We're very clear, I mean it's not a concern for us at all.

Anthony Moulder: (Citigroup, Analyst) You also have that in Nigeria I take it?

Peter Mackie: Nigeria - so just to be clear, where we are with Nigeria at the moment is we made a decision that we would really take an active look in Nigeria probably about a year ago I think, something like that. Then there were quite a few problems in Nigeria, including Ebola, so we held off a number of visits. We had a lot of conversations with the beverage industry outside of Nigeria and only recently have we now gone back in and started doing studies on what are the current costs today in the way they're working and how does that change.

But we are still in the, I would say, very early stages of Nigeria right now. We're nowhere near as far down the path as we are with Russia, which is why on that chart it's an amber shading.

Anthony Moulder: (Citigroup, Analyst) Lastly, if I could, on plastic pallets. You mentioned this work with Costco, what do you see is the demand for plastic in the marketplace and customers' willingness to pay for that?

Peter Mackie: Yes look, I don't see - it depends. You look at it in two different ways Anthony. We've now been getting much more active in Europe really on plastic pallets in the circuit between suppliers into manufacturers and looking much more actively in that space, because we believe for the European business that is a growth space for the European business.

So on ingredients supply into manufacturing environments where the hygiene of a plastic pallet is really important to them there's definitely some growth space for us and you'll see us much more active in that space in Europe.

You heard John - I mean I think the market here has understood post iGPS that plastic at the price of wood the economics are a struggle in open pooling and if anybody is going to make it a success in open pooling it's going to be us, with our network.

But it's been a very interesting and open conversation with Costco about look, if the controls are really good so you don't lose this expensive asset and you can turn it really fast there are segments where this definitely works. So high volume beverage definitely works. We're proving it, I think, in Wolfgang's business that it also works in some of the fresh produce segments as well. But the fundamentals are really key. It's much more expensive than wood so you've got to lose less than wood. If you lose about the same as wood then this thing has to turn faster than wood on average to be better.

So look, from our perspective we would always do plastic if we can see it adds value for customers and it makes a return for us. There's no reason why we would hold off at all.

Anthony Moulder: (Citigroup, Analyst) Can you give us the price point of your plastic?

Peter Mackie: Anthony, I'm going to tell you it varies. There's no single price point. But we won't do it at a below cost of capital return. So we'll look to make a return and deliver value for the customers at the same time. We're clear that there's certain segments where that's definitely possible.

Cameron McDonald: (Deutsche Bank, Analyst) Peter, Cameron McDonald from Deutsche. Just a couple of questions regarding the growth priorities and initiatives. Presumably this is part of the $1.5 billion worth of growth capital that's been called out, can we get some detail as to how much of that $1.5 billion pallets is spending over the five year period? Then also - and maybe it's a question for Zlatko, what's the glide path on return on capital in these new markets? So presumably you're not expecting Russia to be at 20% return on capital by 2010.

Peter Mackie: No.

Cameron McDonald: (Deutsche Bank, Analyst) So what does that glide path look like in terms of how much dilution these new market entries have on the long term or the five year target?

Peter Mackie: So I'm not sure I can tell you off the top of my head the cumulative capital over plan period. But if you look at this chart that I showed you here - and this is - if you really think about this as FY16. In total here there's about $500 million of capital and the 80% share of that is around the pallet pooling business. Well it is, I mean it's around the pallets business.

Then look, in terms of these new market entries, number one, when we enter a market where modern trade is just starting the cost of whitewood is an issue and the quality of whitewood is also an issue. So as you begin to get high bay warehousing in place, as you begin to get more modern systems in place, low quality whitewood pallets begin to fail. So you have this strong value case but also this really strong motive to change in those markets. So the key for us in those markets is to get going as quickly as we can, build a network as quickly as we can. But the reality of them is that they take a long time to build. So if you look at - I don't know how long the US took to build, how long the European business took to build, it takes a while to get them to build. But you're really looking at six years to get to the right point. But they are absolutely critical to the long-term future of the business.

Now given that it takes them a long time to build their impact on our ROCI in the very short term is really quite small. So it doesn't make a material difference to our overall plans. What makes a material difference to our overall plans is really how the North American business performs and how the European business performs over the next plan period.

I would think about those new market entries as if we get in early enough and we build a strong network that's the future of strong, high quality returns for the business moving forwards, which has been a bit how we've established the returns that we have today. They don't have a material dilutive impact over the short term.

Zlatko Todorcevski: I might just jump in there quickly. So in my session later on this afternoon will give you some granularity on where that $1.5 billion is going. I'd say the vast majority of it is going to go into the pallets group but proportionally less in the revenue that the pallets group generates today. So they're roughly 75% of revenue. That's driven by the fact that if you look at RPCs and containers they're growing at a faster rate. Of the proportion that's going into emerging markets, as Pete was saying, most of that's going into say more mature emerging markets where the rates of return are quite high and comparable to what we see in established markets as well. But I'll take you through that today as well.

Peter Mackie: Thanks Zlatko.

Matt Spence: (Bank of America Merrill Lynch, Analyst) Peter, Matt Spence.

Peter Mackie: Hi Matt.

Matt Spence: (Bank of America Merrill Lynch, Analyst) LPR had this leadership change in the UK at the start of the year, so has that prompted any change of strategy from LPR that you've seen since the leadership change?

Peter Mackie: No, we haven't seen it. But it's strange, isn't it, you win two pieces of business from us that we know the returns that they want it at and your CFO and your general manager move on within weeks of that happening. But we don't...

Tom Gorman: [Inaudible].

Peter Mackie: What's that sorry?

Tom Gorman: [We've got to give you an income].

Peter Mackie: Yes, thanks Tom for that. I think I understood that already actually, yes. But look, we've not got a lot of insight before that. So the person who's taken over is new to us. We don't know them particularly well. It's not an ex-CHEP person which is normally what happens in these circumstances.

Matt Spence: (Bank of America Merrill Lynch, Analyst) Are there large contracts that you've got in the UK that come up over the next 12 months or so where we'll get some indication?

Peter Mackie: Yes, always. I mean the reality is that a business like ours contracts are coming up for renewal the whole time. So we work pretty hard to retain the ones we have. We don't lose them easily, let's put it that way. They come up all the time.

Matt Spence: (Bank of America Merrill Lynch, Analyst) Are they being more aggressive in the UK than say Spain or another geography?

Peter Mackie: Yes, we've seen them very, very aggressive in the UK.

Matt Spence: (Bank of America Merrill Lynch, Analyst) But why the UK and say not Spain or something like that?

Peter Mackie: I think it's really hard to second-guess them. Look, personally I don't see their behaviour right now as rational. I think as we talked about yesterday they have different motives from us. They're different from us, they have different motives from us. I wouldn't be doing what they were doing if I were sat in their shoes. We take a much longer-term view of the sustainability of our business. I just think they are somehow taking a very different view.

Matt Spence: (Bank of America Merrill Lynch, Analyst) Just one more if I can follow on from that. Net new wins that you've had over the last six months since June '15, have they been done as a consequence at a lower price point than the average? Have you had to discount?

Peter Mackie: No. Look, I think our pricing is still pretty strong. No. I mean look, we've had to discount some to retain some businesses, there's no doubt. But look, we still continue to index price in Europe as well at the same time. We still look at our accounts that are poorly priced and continue to move pricing on those poorly priced accounts. But look, from time to time we do discount to make sure we keep hold of businesses that are absolutely critical to us.

Matt Spence: (Bank of America Merrill Lynch, Analyst) Thanks.

Peter Mackie: But overall I think you'd see our pricing is still pretty strong.

Paul Butler: (Credit Suisse, Analyst) Peter, it's Paul here. Hey, I really like the detail you've given us on the NPS. I just wonder if you could talk about the correlation you see between the NPS scores and return on capital? Is there a sweet spot where you maximise the return on capital that's not necessarily at the absolute peak level of NPS? Also if you could comment on what seems to be happening in Poland?

Peter Mackie: Well, I will comment on Poland because I think Poland actually is - I can't remember whether it's best in class or upper quartile, but it's one of those two things. So our customer satisfaction levels in Poland are very high. The reason it's red on the chart is the trend. So it's come down slightly in Poland and that's the trend. But they're already at a very high position in terms of customer satisfaction.

Yes, just back to your other question though, it's an interesting one. I never thought - in my mind there isn't an end point to which you continue to drive customer satisfaction. We have - if you go back to that earlier chart we have such a valuable business here. Losing anything from there is really very hard to do. So being at a point where your customer satisfaction levels are very, very high is our best protection of people coming in.

If I look at a couple of markets where we've had competitive entry threats we've spent actually the preceding time working very hard with customers to drive value beyond pooling. So when those competitive entries have happened into those countries they're not actually very successful at all. Because they look at (1) what they're getting with CHEP, the security of what they're getting with CHEP and then they say well look, they're doing all of these things with us beyond pooling, why would we switch? So this whole piece about doing more things beyond the value of pooling is key to keeping hold of them. But look, you shouldn't be under any illusion. There's gain for us in doing those things. So when we do the transport collaboration actually it also improves the quality of our returns as well. So when we look at how do we take cost out of their supply chain we somehow share in that benefit as well. For some of the solutions you'll see in the US we'll actually charge for some of those solutions where we bring some more value. But it's all key to us, retaining the customers.

But if you think about what I said about what they really want from us, they want us to be much simpler and they want more value. So these new solutions are about delivering more value. All of them actually have a business case for us. We'd still continue to pursue them because (1) they'd retain customers, (2) they improve the quality of our returns.

Look, on the simplification piece - although as I said I wouldn't write down a big number - that simplification is a key important factor for customers but it also saves us some money. So the investment in our systems here has a return based on the reduction in our own admin cost as well. So I can't see a world where we wouldn't continue to do those sorts of things, I think.

Paul Butler: (Credit Suisse, Analyst) Right. Just to clarify, so on page 30 the map there with the colours, that's showing the trend in NPS or is it showing the absolute level?

Peter Mackie: No, it's showing the trend.

Paul Butler: (Credit Suisse, Analyst) Right. So if we could see one that showed the absolute level would that look quite different?

Peter Mackie: No, so what you're seeing in Poland, I don't think I have the score with me here on Poland. I may have fortunately written it down. Poland is actually at best in class. So if you look at - even with the red result here that you see on the trend, Poland was at best in class. It's moved back slightly but it's still at best in class versus the benchmark in terms of its absolute NPS score. So if you look at this, Poland is one of the markets that's in this 10.3%.

Brambles

Paul Butler: (Credit Suisse, Analyst) Right. So what are we meant to take from the previous chart, from the map? What's the take away?

Peter Mackie: Right. So the key take away from this one is our top 10 markets - so in 9 out of our 10 top markets they represent 75% of our revenue, so 75% of our customer base. Those 10 markets are our most competitive markets. So in 9 out of 10 of those most competitive markets, 75% of our cost base over the last three years customer satisfaction has improved. So all of the things that we've been doing here has actually improved customer satisfaction in the markets that's actually critical to retention for the business, for a business where we're making the level of returns that we're making. The only market - so the 10th market in those is actually Italy and Italy, although it didn't move forwards, is actually at upper quartile.

So the reason for showing it to you is retention of our customers in this business, we're the market leader here, we have an incredibly attractive business and retention of those customers is key to us. So the reason for showing you this data is that we're putting a lot of effort into retaining those customers and as we do these surveys we begin to see it in the trends of these surveys. Hopefully as some of you who get round customers, hopefully you'll have seen some customers that will express that difference as well.

Paul Butler: (Credit Suisse, Analyst) Thanks.

Peter Mackie: All right, thank you.

Unidentified Participant: Hi Peter, just one thing that I'm curious about with the capital deployment into these emerging opportunities, one thing that the Company always claims is that these new markets, Latin America, Eastern Europe, are very high returning markets because of their adjacency and a newer pricing position and what have you. So I'm kind of curious as to why these investments might be diluting your returns on that five year horizon when my understanding was these markets are typically above your kind of...

Peter Mackie: So within the emerging market portfolio we have a couple of markets, so South Africa and the Mexico market that we're very nicely penetrated in those markets and we also have very strong returns.

Unidentified Participant: But they're not emerging markets for you. I mean you've been in South Africa forever. I know it grows in a different perspective but Poland and Eastern Europe have been very accretive to your returns, Brazil, that's a very high returning market for you. So what changes with these future investments into similar markets that you're making - I mean I can understand Nigeria coming from scratch or what have you, you have to build a base, but is Russia a complete rebuild? I mean...

Peter Mackie: No, so look it's a matter of scale here, all right. So our investment into a market in Russia, like it was in Turkey, for example, is really about overhead. So we put people in the field of the ground. The key bit is assets, can we get our assets back in the marketplace, making sure that we work very hard at that, and actually putting salespeople on the ground, general manager on the ground. So you put a certain amount of overhead on the ground before the revenue comes in. So you go through a period of trying to grow that business with that investment. But the investment is relatively modest and to some degree as long as it's close to another market you can keep that investment relatively low. Then in reality it's not until you win a business that you then start putting the capital on the ground for that business.

So it isn't a material impact on our overall returns but still to get to the level of returns that we have in the overall business is still takes a number of years to build up that scale and get to the scale efficiency in your plant network and in your logistics network to get to the level of returns that we're able to achieve in Mexico and also in South Africa.

So what I'd say is, so there is a period of dilution but it's very small. You're talking about some overhead, some operational people in the field, that until you get this growth going you have to suck that cost for a while. But in the grand scheme of things the big movers of the dial is how do we convert whitewood to pooled in some of these other markets over that plan period.

Unidentified Participant: On that point too, I mean you've talked a lot about SME conversions in the past - we haven't heard so much about that today. We've been told that they're actually very valuable conversions because often you can charge at a different point and they often do more volume than you anticipate, so there's a nice effect for you. So is that changing too? I'm just curious about why returns are falling if you're winning whitewood back into pooled? I mean I know there's the cost problem but where's - for the overall business - it's probably a question more for Kim because...

Peter Mackie: Yes, maybe. Kim can talk specifically about the US SMEs but we still continue to grow strongly in that whitewood space at good returns. I mean we have good controls in place to make sure that I don't get fired for pricing to low. So that's not the case. Look, I think in the returns specifically we've had some challenges around costs in the US, especially in transport cost in the US, that have been tough to deal with and then we're also putting a lot of capital behind the new growth that's out there for us. Yes, look, I wouldn't say - those two aren't particularly related.

Andre Fromyhr: (CBA, Analyst) Andre Fromyhr from CBA. Just back on the changes in the pricing and the simplification. I know you mentioned that overall spend would not be expected to change to the new model, but what about over time potentially changes in customer behaviour, to what extent can you use pricing to drive higher returns and better asset control?

Peter Mackie: Yes, it's funny isn't it? When I talked about some customers weren't crazy about the change that we made to the pricing structure a decade ago, some of them were actually very happy with it. When we've taken that pricing structure into new markets customers have said oh that gives us much more visibility. Because that pricing structure was really - there's a really clear link between customer activity and their spend. So they're able to say well I can change my activity and my spend will come down, or I understand that if I do this activity then what's going to happen to my overlap spend with CHEP.

That will still be the case. So keeping the link to me to this activity based costing is kind of important for us but for a lot of customers it's also important for them for exactly that reason. Exactly that reason of saying actually how do I look at - can I improve - can I reduce my spend with CHEP if I do something differently. Look, when I talk about us engaging about improving customer supply chains we do a lot of work with them on if we were to change the way we work together actually you'd reduce costs for us and we'd share some of that benefit with you. So we actively do that with customers. A very open pricing system enables you to have that dialogue.

Andre Fromyhr: (CBA, Analyst) You're very willing to have, I guess, unique models depending on the customer and their situation and how integrated your systems are with them?

Peter Mackie: So unique models no, because from a systems point of view it's a complete disaster. So what we're trying to move to here is more choice and to some degree less creation of ad-hoc solutions but giving them more choice that we can then back up with really good systems to make it work. To make it work well.

Will Charleston: (Goldman Sachs, Analyst) Peter, Will from Goldman Sachs. Is there any opportunity for you to grow in any of your markets via acquisition, whether pooled, which I'm sure that's a pretty small opportunity, but also in recycled pallets?

Peter Mackie: Yes. I mean Kim may allude to that a bit later on. Look, for the pallets business it isn't something that's going to move the dial but there are things that we always look at from time to time to say actually there's something they have which would make our business better or actually our network would give this particular company significant benefit. So if you look at when we acquired the IFCO PMS business part of that $100 million commitment on taking cost out included $35 million of synergies that we extracted by combining the plant networks of those two businesses.

So look, we're clear there are opportunities out there for us and we'll take them where we can drive some clear synergy through that acquisition. But look, in all honest they feature and they could be an important part but they're not a key part of our thinking I would say.

James Hall: Thank you Peter. I think we'll take a very quick comfort break for anyone who needs to have a leg stretch and then we'll roll into Kim's presentation.

Peter Mackie: Okay, great.

Kim Rumph: All right. While you guys are getting settled I have to tell you this story. If you don't follow Major League Baseball there's a concept of a walk-up song, so that's what we're doing for you guys. So I just got the Sweet Home Alabama played. So throughout the day you'll get to see the walk-up song. But what it is, is the MLB players when they go up to bat they always have a little song before they get up to bat and it's quite interesting to see what song they've chosen for us. Mine is a little obvious. Once you hear the accent you can probably figure it out.

All right, we're going to dive into North America now. I know that you guys are looking forward to this discussion. We're going to be quite transparent today. I'm going to share a lot of information with you about how the North America business is performing.

Before we dive into that I'll just briefly introduce myself. I know many of you but for those of you who I have not met previously my name is Kim Rumph and I lead the CHEP North America business. I've been with CHEP and Brambles for about 10 years now. So before I led the North America business I was the president of CHEP USA. Before that I led the global integration of IFCO systems for Brambles. So I've been around for a while and mostly inside this business. So looking forward to a conversation with you. I will take a great deal of questions at the end of my session, so please feel free to throw them at me. Some of you did a great job of that last night, so we can continue the conversation today.

So I'm going to touch on just a couple of key things today, one of those key things being asset productivity. So I know that is on your mind. So we're going to talk a good deal about asset productivity, the initiatives that we've been driving inside the North American business but in particular the USA business, since I took over as president of that business in 2011. We've made huge progress. I want to make sure that you see those results today and you understand what's happening there related to asset productivity.

We're also going to get into market differentiation. So you've heard a lot of conversation today about solutions, driving solutions and adding incremental value for our customers beyond the pallet. We're really blazing that trail inside North America with the recent launch of our solutions portfolio and a new go to market strategy. So I want to go into that and I want to make sure you really understand what that means for our future, because it is a significant step in really transforming our business and our value proposition. We're just beginning the journey but it's a very exciting journey, so I want to get into that today. I want to make sure you understand what that means for the future of the company.

Then lastly but certainly not least I want to talk about growth. So I am going to go back to growth. I'm going to take you back even to the IMB that we did in Sydney about 18 months ago. I spoke with you about layers of growth and where that growth was going to come from and I'm going to take you into that more deeply and show you how we're progressing in those areas since we last spoke.

So that's how we're going to approach the day. I'll be up here with you for about an hour, so stay with me. I've got a couple of videos to show you, so hopefully we can keep your attention and really share some insights with you today.

So with that we'll get started. I want to start with a journey, because I think the journey is really important. I know most of you have been with us, following us, investing in us and participating in our business for a very long time. But I think it is important as we talk about where we are today that we reflect a little bit on how far we've come, because we have really dramatically matured this business and we have really positioned North America for future success but also for long-term sustainability. I feel very strongly that the business is in the best shape that it's ever been in.

So we will have challenges and I'll even talk about some of those challenges today. But we are so much more mature and better organised than we ever have been. So I want to take you on that journey a bit. That journey started with Better Everyday. So I know a lot of you were around when we made the decision to make a massive investment in pallet quality and product quality inside the USA business. It's really quite rewarding for me to stand here today because I was standing here at an IMB in Los Angeles in 2010 when we talked about the launch of the Better Everyday program. I had the pleasure of leading our operations team at that time and so it was actually my responsibility to drive the quality improvement program across the US business.

At that time many of you may recall, we were quite on our heels. So we found ourselves in a place where our customers were demanding better quality. iGPS had entered the marketplace and started taking market share from CHEP USA. So it was not a good time in our history to be quite candid with you but it was a great time to be a part of building for the future. So we made that significant investment and I sat here on stage and shared with you all kinds of details, some of you might remember, the process control plan and how we were going to measure and make sure that the investment was sound and make sure that we were going to continue to deliver on that commitment for many years to come. At the same time we told you that it was going to pay off and that it was going to make a difference in the marketplace regarding how our customers perceived us and saw us.

So since that time we've done exactly what we said we would do. We made that quality investment. We delivered on the commitment to our customer and we opened the door for a conversation about those customers who left coming back, but we also opened the door for a conversation about strategic partnerships and about really re-earning our customers' trust and building partnerships that would be lasting for many years to come. That first initial step towards customer centricity, that beginning that started with Better Everyday was a huge step. It was a very important step. I know it rattled some of you and it rocked the market and things were happening with iGPS but I think it is one of the best things that ever happened to us because we are such a better company now.

So as we went on that journey and we made the investment in quality and we raised the game related to quality and we won back significant amounts of business that had left us from iGPS, they returned back to CHEP USA but they also returned back with a different state of mind and a different impression about us. They saw that we were different, that we were humble, that we were delivering on the promise. That we were listening. That we wanted to understand what their needs were and we wanted to meet those needs. That led us into some strategic collaboration with these customers and we started really talking about how we can make our supply chains better. So let's get past the deliver the product quality that you promised me, get it to me on time and do what you said you were going to do, we moved so far beyond that through this experience. So many of these customers that returned back to us now are our greatest advocates. They are the customers that stand on the platform and tell us that we are true strategic value creators for them.

So this journey has been quite worthwhile and it's been a long journey but the journey has led us today to repositioning ourselves in the marketplace as a solutions company. Had we not gone on that journey and had we not had that experience I don't think we'd be standing here today, repositioning as a solutions provider and talking well beyond just the pallet, which is where we are now, which is a great place to be.

At the same time that we were moving towards customer centricity, that we were collaborating with our customers, that we were really understanding their needs, you guys will also remember that we embarked on a huge asset productivity journey. So I also talked with you in Zurich, at the next IMB when we were in Switzerland together, about the creation of our retail sales team and about the creation of our asset control team. We talked a lot at that time about the value of the retailer. How important the retailer is to the US supply chain and how relevant they are to our business model.

For many years we focused very heavily on the manufacturer, obviously, because the manufacturer pays a rental fee on our assets and they're very important to us, but we felt very strongly that we had not faced the retailer appropriately. That we did not have the right relationships. That we were not embedded with the retailers. That we did not really understand their needs for our assets, how they were using our assets and most of our conversation was about just getting our stuff back.

Our conversation has evolved dramatically since this conversation in Zurich about creating this team and really focusing on value for the retailer. What that has allowed us to do is also allowed us to focus on turning our assets faster and getting our assets out of their chain and losing less of our assets in their supply chain. So this collaborative effort to engage with the retailer, to get more embedded with the retailer, to listen to the retailer has also allowed us to reduce losses inside our supply chain, and I'll talk about that some more, I'll show you some data around that. But that engagement was very important.

The second part of the asset control engagement and journey was the work with our recyclers. So many of you may recall I also talked with you a lot about recycler collaboration back in Zurich. We talked about things like using recyclers as consolidation points, finding ways to collaborate with them so that they will help us get our assets back. That has also borne a significant amount of fruit for us in terms of reducing losses.

Then lastly in Sydney, at the IMB, I also talked to you about how we were getting more sophisticated about that and I shared some work we had done with Deloitte around some technology and using Google Maps and finding our assets that were stray or maybe that were in places where they didn't belong and that we were now working to get those assets back using that technology.

So this whole journey has resulted in improving our loss rates - and I'm going to show you some of that data today - and it has set a really strong foundation for asset productivity. What that's going to do is allow us to open new verticals and allow us to go into places that we have not been able to go before. So it's been a very worthwhile journey.

Then as I said, lastly I'm also going to talk about growth, because I know it's on your mind. So we'll get into how we're growing, how are we tracking against the things we told you about, like fractionals and using segmentation as tools for growth and finding where to go next to grow. So we're going to get into all of that today.

But to start with I think it's really important that we just talk about growth. So I've also heard over the years questions about the US in particular, is the US ex-growth, is the US growing, how are we performing in North America. So I want to demonstrate that we're performing quite well to you, using this data here. What this is, in the light blue on this chart, is the US Census Bureau data for retail sales for beverage and grocery. So what you can see here in the shaded blue is actually how retail sales for grocery and beverage are tracking but what you can see in the dark blue bars are actually how we're tracking year-over-year in terms of growth. So what this tells you is that we are certainly winning new business and we are certainly growing well beyond which you would expect to see related to organic growth in the marketplace.

So we're certainly outpacing that and bringing new business into the portfolio. You can see some anomalies here related to the integration of IFCO and some Paramount stuff happening in the earlier years and then, of course, you can also see some of those losses to iGPS reflected here and then you can see those wins in FY12 and FY13 coming back in.

What's really important to note is we continue to win. So the iGPS win-backs are kind of behind us now. We brought great volume back home and we're pleased to have it but what you can see here in '14 and '15 is we still continue to grow well above this data for grocery and beverage, which I think is a really positive testament to the work we're doing around growth.

Next I'd like to talk about margins, because I know that is also on your minds. So, before we get into the details of these three components I spoke about, I'm going to give you a walk. I don't know that you guys have actually seen data presented this way before. Normally you see America's numbers and this is actually North America. I'm going to show you a lot of information today and hopefully it will be meaningful to you.

The point of sharing it with you is we actually are laying a very strong foundation to continue to grow this business profitably. I think it's really important for you to understand the puts and takes in this walk related to margin since FY11. What you see here is in FY11 we were sitting on margins of about 17.1%. If you look over to the right of course you'll see today we sit at 18.4% margins for the North America business. The walk is important, so I want to take you through the components of the puts and takes around margin growth so that you understand what's happening here.

The first one, I think you all know quite well, are the efficiencies from Better Everyday. You'll recall we made the Better Everyday investment in quality and then we committed that we would strip costs back out of the business to offset some of those ongoing repair costs. That's what you see here are these 3.5 points coming back into our margin are those efficiencies that we committed to deliver. We've reported out on those to you guys at length. I'm sure you're quite familiar with that.

Next what you see here, which is also really important is the impact of integrating what we now call CHEP recycled, previously referred to as the IFCO PMS business, into our financials. It's very important and I'm sure you guys know this by now, to realise that this is a great business that has a very high return on capital and it takes very little capital to operate. It's a beautiful business to have in terms of cash generation and growing profit with very little investment. It does erode margins, by this 3.1 percentage point that you see here. So it's also just important for you to have that context so that when you're looking at North America margins you realise that we have purposely integrated this low margin business into our financials. You have to take that into consideration when you're looking at margin development over the period.

We do love this business and we're going to talk about it a good bit today and what we're going to do to grow it and then we're actually going to take you to one of our recycled facilities tomorrow for those of you who can join us on the plant tours.

Then what you see here next - and I'll talk about these two things together - are plant and transport costs, which are obviously moving in the wrong direction and they are having an impact on our margin. We've talked to you guys about this a good bit. We've been quite transparent about what is happening here. We have a couple of things going on. We have higher damage rates because of the work that we've done in asset productivity. Today I'm going to talk at length about what we're doing around asset durability, around building a stronger pallet so that it can withstand now the use that it has in the marketplace.

We know what this is and we understand it and we're addressing it, so I'm going to take you through what that looks like today and make sure that you have a good understanding. Then inside transport of course we've experienced some significant transportation inflation due to shortages of drivers and wage increases for drivers, also some federal regulations that have affected driving hours in the US marketplace and that has driven up our cost. Also though we have asset recovery costs in here. We've been doing a great job of recovering more pallets and we pay to recover those pallets. That hits the transport line as well.

We know exactly what's happening inside these components. We have programs to address them. We have other initiatives to offset those things that we can't control such as transport inflation. I'll take you through some of that today as well.

The next piece, which is really important to note is DIN. I know that Zlatko has spent some time explaining to you guys DIN which is somewhat of a proxy for loss for us. We are seeing significant improvement related to IPEP charges inside the USA business in particular because of the asset productivity work that we've done.

I've seen some of you have noted questions about that. So is asset productivity paying off? What does this mean, are we getting positive results inside the P&L tied to our asset productivity work? We certainly are. So you can see that represented in the margin development here. Then lastly is overheads. We've talked about the One Better program a lot. You guys have heard us talk about stripping overheads out of our business to make ourselves more efficient. The North America business is progressing that program very nicely, so we've already generated some significant results around reducing our overheads as a percentage of sales. You can see a significant contribution to margin development here related to reducing overheads across the business.

I want to be really clear so that you guys understand, this is about working smarter. This is not just about stripping headcount out of the business. This is about finding ways to be more efficient, finding ways to be productive, finding ways to consolidate work, finding ways to eliminate work and that's what you're seeing reflected here in this margin improvement.

Overall this is the shape and the development. We certainly intend to continue to attack this plant and transport bar. We'll again talk more about that today. We are certainly well on a path of continuing to develop our margins. We know where we are. We understand why we are where we are and we have a solid plan to make our contribution to Brambles over the five period and in line with those commitments that Tom and Zlatko have shared with you.

Now we're going to get into asset productivity because I really want to take you through kind of the guts and the dynamics of what's happening here. We have been working quite hard in this area. Asset productivity for us really has three components and it's important that we talk about all three because they're all part of the dynamic of how our pool is working in the supply chain.

The first one begins with quality. So, I already spoke about Better Everyday and that was the first step. We made a huge investment in repair costs as a result of Better Everyday. Our customers were demanding that we deliver on the promise and that we raise our specification related to things like raised nails and other areas of concern for them. We made that investment. Now as we become more customer centric and we are truly listening to our customers and having real conversations about where they're taking their business and what their needs are, it's become very clear that they are automating their systems.

As we engage with customers they're working just as hard as we are to be more efficient, to take costs out of their systems and many of them are moving towards automated warehousing systems. They're starting to become much more sophisticated about how they store product, how they wrap product, how they move product and it behoves us to stay in contact with them, to stay in touch with them to understand those trends and to make sure that our pallet is fit for use.

We have engaged in some initiatives around automation. We will make some investments in upgrading our quality specifications, in some cases our product spec to make sure that it works for these customers. One of the reasons that we had customers requiring new pallets for some time was simply because they were more automated and sophisticated. They needed certainty that a pallet was going to work in their system. Today when I talk asset productivity I'll also share with you the progress that we've made around removing those new pallet commitments and making sure that we can meet our customer's needs with a pooled asset.

What I'd like to do next is actually show you what I mean when I say automation. We have a video from P&G that really demonstrates an automated retrieval system - an automated storage and retrieval system inside one of their warehouses. Many of you may know that they were a customer who was requiring new pallets. We've worked really closely with them over the years to demonstrate that we can deliver a pooled pallet that meets their needs. I want to show what it looks like inside their warehouse, just so you kind of understand what we mean here.

The reason that it's important is these warehouses are designed to almost be touchless. There are very few humans working inside these warehouses. These warehouses are highly automated. What our customers don't want is a pallet jam, a pallet that's out of specification, a pallet that won't move seamlessly through these automated systems. What happens is they have to shut the whole system down and they have to actually have a human go up and manually intervene and unjam the asset.

It creates safety challenges, it's inefficient, it's not natural for an intervention like that to occur. This is why it's so important to them that we're able to meet their needs. So we're going to roll the video now.

[Video plays]

Okay, so clearly you can see the idea here for P&G and for many others who have invested in this technology is to be highly productive, highly efficient and the last thing they want is to intervene with a pallet or a pallet that jams in that system. When we speak about automation and moving towards meeting our customer's needs related to automation it's about understanding how that equipment works. It's about making sure that our pallet specification is suitable for their needs.

You will see us in the coming years continue to advance in this area. In some cases make investments in making sure that our pallet is fit for use for those customers.

The next piece of asset productivity beyond the pallet itself, making sure that the pallet works in the system that our customers need and desire is really around asset productivity itself. I talked about that journey that we went on, the journey to create the retail team that collaborates with the retailers, but also to emphasise the asset control and to put programs in place around reducing losses and increasing cycle time. We have made huge efforts in this area.

We have reduced loss rates and I'm going to show you a chart in a moment that demonstrates that related to IPEP as a percentage of sales. You can see that we are reducing IPEP charges inside the USA business. Also this collaboration work that we've been doing - so back in Zurich I talked about engaging with Costco in a sell for loss project. That was one of the examples that I gave you guys is that we were working with John Thelan and his team around solving for loss.

We've seen significant improvements in loss rates with those customers that we've collaborated with. Costco is just an example, but we've done this with quite a few customers and it is certainly yielding benefits to our loss rates. In some cases that will drive up transport costs because we pay in some cases a recovery fee or we may be moving more assets around and recovering assets. That's a positive thing. We'd much rather pay transport costs to find those assets and recover those assets than write those assets off the books certainly a favourable trade of CapEx for OpEx.

Then lastly comes durability. As we work to improve our pallet quality and meet our customers' needs related to automation, we've also made this initiative work around asset productivity and reducing losses. We've also really implemented the initiative of getting customers off of these new pallet requirements and not buying new pallets when we don't need new pallets. What that has resulted in is a pool that is highly efficient, a pool where we have the proper piece stock and the right inventory, so that we can run tight and lean - not make capital investments in the pool when we don't need to or simply because we have a customer commitment.

Our stock inventories don't require that we make those purchases. What that does is it makes our pool leaner, makes it more efficient but it also makes it work a lot harder. Now we're keeping assets longer. We're not losing assets. We're not replacing lost assets with new pallets, which is a great thing for capital. It also means that we're sweating that asset harder and it is resulting in a higher damage rate related to that asset.

We have also already implemented a pallet durability initiative and I know you guys have seen the pallet probably out here and we're going to show you that as well tomorrow when we do the plant tour. We have engaged in redesigning certain aspects of the pallet so that we can lower the damage rate. I'm going to take you through that and show you what that looks like.

Over time that is going to reduce the damage rate, is going to lower the repair cost and in the short term repairs costs are going up only slightly while we work to make this investment. It generally is phased - the investment and the benefits are phased together, so you won't see or feel this really in the P&L. We are moving forward with this program now and I'll show you a little more about what that means throughout the course of the presentation.

Let's get into the metrics because I think this is the heart of the conversation about asset productivity. The so what - so what have you been doing and has it been working? Let's start with the first chart which is on your left hand side. The first chart represents new pallet commitments that we previously had inside the USA business for pooling.

It actually goes back further than that. I only took you back to 2011, but we've actually been working on this since 2008. We had an entire laundry list of customers who over the years told us that they required new pallets. Originally sounded like a great idea. We were growing dramatically. We were putting new pallets in the system constantly. To make a commitment to provide new pallets was not necessarily a bad decision at the time, however now we find ourselves in a place where we want that flexibility. We want to make sure that we're only buying new pallets when we need new pallets for growth or to replenish lost pallets.

We took on this initiative and we literally marched through a list of customers one by one. We collaborated with those customers. We went into their facilities. We brought our application engineers. They brought their process engineers and we worked on these programs together to find out why can't you use a pooled pallet. What is it that's wrong with a pooled pallet that doesn't work for you, or maybe it's just a perception.

In some cases it was a perception and we were able to just run a pooled pallet. In some cases maybe they needed a little better bottom deck or they needed a little better leading edge board and so we collaborated with them to find ways to give them the pallet that they need so that we could reduce this requirement for new pallet purchases.

You won't always see this benefit just flow naturally through the P&L. We're going to buy new pallets for growth and we're going to buy new pallets to meet our customer demand. What it does give us though is the flexibility to only buy them when we need to buy them. There have been years when we've had excess piece stock in inventory and we bought new pallets anyway because of this commitment.

So, it's really important that you understand now that we have the flexibility to buy only when we need to buy and we're not really held hostage to this requirement to provide new pallets to our customers. It has been a massive undertaking and it is a huge success and so you can see here, as of now in FY16 we have no more new pallet commitments with our domestic customers in the US at all.

We'll buy them when we need them and we'll give them to them when it makes sense. We're not required to do that, so it is a large achievement for us. Then on the other hand, you see on the right hand side, the reduction in IPEP as a percent of sales revenue.

This is the kind of so what around asset productivity and asset control. So have your initiatives been working - the recycler collaboration, this value creation for the retailers, getting embedded with them in solving for loss. Is that working? You can see clearly from this chart here that we have certainly reduced IPEP as a percent of sales revenue since this program began in 2011. Again we're seeing the benefits of this work and it is certainly reflected inside the P&L.

All right, so next I thought we'd get into pallet durability. So it is one of those drivers of margin erosion I guess you could say inside our business and it's very important that we have a program to deal with this. We have, as many of you I think know - we have an innovation centre down in Orlando. We also have a pallet test track down in Orlando. We have a team of wonderful and smart product development engineers who have been working on ways to make the pallet more durable and stronger, so that we can lower damage rates.

It's very important that we do this not just in new pallets because again we're only going to buy new pallets when we need new pallets but we also deal with the existing $75 to $80 million assets that we already have in the USA pool. It's really important that we work on upgrading that through repair and we find ways to make those assets more durable so that they can withstand the use that they're now taking on in the US supply chain.

There are two key areas and the reason that we're focused on these two key areas is because we've zoned in on the highest points of damage. So, we've been very methodical about looking at pallet damage and understanding exactly what components are getting damaged. We've put initiatives in place around the areas that we think are going to have the greatest impact on damage rate. We do still have other components that get damaged but our T3 and our bottom deck, B2 boards are very important and they drive very high damage rates for us.

These are the two areas that we're focused on. We'll continue to innovate in other boards in other areas but we paraded this out and we think this is the right place to start based on the damage rates that we see. There are two things happening.

First there is the clinch nail and you guys can see this on display in the break hall next door as well. We have a breakaway cutaway where you can see it. The idea here is that the T3 board which are the boards that are highlighted in light blue that you'll see up here are boards that actually pop off. They literally over the years will pop off of the pallet. If you've ever been in one of our service centres you might see that we recover them because they're really good boards. They're just not staying affixed to the pallet. So they're not secured well. There are a variety of reasons for that.

Sometimes it's the way that our customers use the forklift. They might actually lift the pallet when it's under load on the T3 board and pop it off. Sometimes the pallet is empty, there is nothing on it, but an employee of one of our customers might choose to pick the whole pallet up using just one middle board which kind of puts stress on that board and can pull that board off because our pallet is quite heavy. The other thing that has happened over the years is that we have - before this clinch nail screws that would go into this T3 board to hold it in place - we thought a screw was a better way to affix it than a nail. If there was a raised screw our repair employees might actually try to hammer that screw down and then they would strip it out.

Then you've stripped it out. You've bored out the wood and the board will pop off. There's a variety of reasons why this thing is happening, but the point is it's happening and it happens a lot. So we've gone on this journey to discover how can we better affix the T3 board. We've learned a lot from folks like the roofing industry and others, so there's lots of people who are trying to keep things in place and so we've gone out and we've investigated and we've studied that.

What we have found is that the best solution is to actually put in a clinch nail. What you can see here is it's shaped like a J, so it actually goes into the T3 and it hooks. It holds it in place and it doesn't strip out. It actually has five times more holding power than the screw that we're using today. It's a significant improvement in terms of holding that board in place on the pallet. It is literally locking down and securing it. This is going to make a huge difference once we apply these clinch nails across all of the T3s in our network.

We're doing it now. We are launching it now as we speak. We have service centres across the network that are already launching this program. We intend that by the end of FY16, 25% of our pool will already be repaired with this clinch nail. We're not adding additional repairs to the table, just so you guys know. We're not going to address pallets until they hit the table for repair. We're not going to increase the damage rate and repair stuff that's not already going there. It would be highly inefficient to do that.

The idea is if it needs to be repaired and it goes to the repair table and one of those T3s needs to be repaired we're going to go ahead and clinch all of those T3s. That's happening now and tomorrow when we take you to our Riverside recycled plant we actually have a blue pooled pallet cell there and we're doing this onsite. We're going to be able to show it to you in action. You'll be able to see our repair employees actually applying the T3 clinch nail.

You'll also get one, so in your safety gear bag tomorrow - look for it, there's a little plastic bag and you can actually just see what the nail looks like and you can see the difference between the screw that we were using and the clinch nail that we'll now be using. It's a significant engineering design improvement. That's what the T3 clinch nail is all about and that's happening in a repair operation.

Brambles

Next comes the nail plate, which is actually - I have one for you here as well - you'll get one in your bag tomorrow. The nail plate is designed to actually go onto our B2 board which is one of our highest damaged boards on the bottom deck. It's actually designed to help stop the splitting of wood. If you have impact on the bottom deck and it would normally split the board. It would go across the board - that nail plate is actually going to absorb that impact and stop that board from splitting.

Why might that board split? There's a variety of reasons. Sometimes when nails go through the board it weakens the fibres. Sometimes our customers might hit it with a forklift tine and split it or crack it. Then it will eventually propagate across the whole board. We see a lot of these B2 boards that are broken across. By putting the nail plate on it's going to absorb that impact. It's going to help stop that split from propagating and it's going to hold that B2 in place and that B2 is going to last longer.

It also strengthens the joint around it, so it actually makes for a better quality pallet. When we talk about automation and our customers trying to run through their system, the bottom deck is really important. They need a good bottom deck. They need a bottom deck that is square and a bottom deck that doesn't have a bunch of loose wood or splitting wood on it. This is actually also a good positive customer feature for us as well.

We'll have 60% of all new pallets that we're building by the FY16 will have these nail plates being installed. We have a plan to launch that out across all of the new pallets. We're also looking at our inner regional flows as well - pallets that would come in from Europe or from Central America, we're working to make sure that we get that capability to put those L plates into those as well.

These are the key areas of damage and this is going to have a significant impact on reducing damage. We'll take you into more detail tomorrow and you can also on the break - as I said - go out and see just the cutaway pallet and you can look and see how it works.

All right, so next - so this is kind of the last part of the asset productivity section, but I cannot not talk about transportation inflation, so I've put it here for lack of a better place to put it. I think we have to talk about transportation inflation. You guys saw that represented in the margin development walk and so I want to make sure that we hit that head on and we talk about it.

You guys know and we've told you this that we had some transportation inflation that was fairly significant in FY15 and we had to manage that and deal with that. Since that time we have embarked on a significant journey to make sure that first of all we understand transportation inflation trends. That we feel good about the programs that we have in place to deal with them and that we're performing as we should be given these conditions and this environment that we're facing.

We actually hired a third party firm called Chainalytics and they're an expert in this space. They did a significant deep dive study with us to look at our transportation procurement practices. So we want to be sure that we're best in class. We have to deal with these challenges but we want to make sure we're doing it very well. Chainalytics came in and they went down the path of a study with us to look at how we buy transportation, dedicated carriers, spot market, line haul, all the things that we do to manage our transport.

We wanted to validate that we're doing the best that we can and we want to make sure that we're using the right forecasting tools when we're forecasting transportation inflation and that we have our arms around that. They also looked at third party transportation versus running your own private fleet. So they looked at the whole picture for us to make sure that we're doing this in the most optimal way.

Many of you guys would know when we acquired the IFCO business and in particular PMS, we acquired a private fleet. So we actually own a private fleet now for our recycled business. We also asked the question should we leverage that in some way, should we be doing something different with our pooled side now that we have this transportation fleet inside the recycled business.

Chainalytics worked with us to answer these questions and the findings were good and interesting. The first was that CHEP is highly complex. We know that we're complicated. We move a lot of assets all over the country, but we're actually more complicated than most. So, even when you look at very, very large shippers, key manufacturers that are producing a ton of volume across the network on an annual basis. Their lanes are much more consistent and they have less of them.

So, they're moving from their manufacturing facilities - normally they only have between zero and five of those. They're moving to their warehouse and then they're moving down to a set of retailers. We're moving everywhere from more than 200 nodes where our pallets are sitting, to every single manufacturer, to every distribution centre, to every warehouse. Our movements are much more complicated. Chainalytics had to go deep to really understand how do we move the way we move and why do we do that.

The findings were that we're doing a great job and in fact we're performing at the benchmark or above the benchmark in almost all cases for the way that we're procuring our transportation. The way that we're using dedicated carriers in certain markets so that we can get the best rates and the way that we limit line haul and spot market as much as possible.

The reason that we're able to do that is because of our network optimisation. We are constantly optimising our flows, we are constantly trying to take the lowest length of haul movement and all of that allows us to lock in dedicated transport. It allows us to get the best possible rates and optimises size of those dedicated fleets. The findings were that we're doing this right, which is a good validation of our practices.

They did help us find some opportunities. Certainly there was some findings in there where we can procure slightly different or we can find some initiatives. They did help us find some modest cost savings opportunities as well. They also evaluated our private fleet and the findings were that our recycled private fleet is highly efficient. There were some great findings around that that we run that fleet well. That that fleet is very positive for the recycled business model - that we should continue to run that private fleet for our recycled business.

Lastly they also concluded for us that that does not mean that we should move to a private fleet for the pooling business. They found cases where it might make sense in certain geographies or certain markets, to take advantage of a private fleet, but we're also highly efficient with our dedicated carriers and the third party transportation providers that we use.

The findings were solid there and they validated that our practices are good. We're pleased with the findings. As far as the outlook goes, this means that we have a challenge still. It would have been great if they'd said hey there's a ton of low hanging fruit. You guys are not doing a great job. We're pleased that we're doing a great job, but that also means that we have to offset transportation inflation in other places. We're not going to find it in transportation.

The findings were look you're using the right indexes, you're forecasting correctly. What you see in the Cass index which we've shared with you guys, is the right way to look at this and it is the right indicator of transportation inflation. What that tells us is we do expect to see more transportation inflation in FY16. The first two months of the year are tracking in line with our forecast, so it is up. We are seeing inflation in the first two months of our fiscal year. They're in line with what we expected. They're in line with the Cass index.

We're going to feel it a little bit this year, but we're not going to feel it the way that we felt it last year. We have put our surcharges in place around transportation inflation, so we took some surcharges with our customers in FY15 and we have plans to do that again in FY16, which is never a pleasant or a positive thing to do with our customers. They understand it.

I'm sure many of you have probably spoken with customers and they're experiencing the exact same inflation that we are. So people generally understand this and they get it. We're managing that accordingly. Then we also have a whole list of course of supply chain initiatives that we'll use to offset some of these impacts and make sure that we overcome these challenges.

Transportation inflation, lastly I will show you the index. I'm sure you guys have probably done your own research by now, but this is the Cass index that we use for transportation inflation. What this chart really represents is what's been happening since 2012. You can see that we've been trending up. The market - the industry has been trending up since 2012 and the market is facing clearly significant inflation.

This is all - as I said before - driven by driver capacity. This is about new regulations that were put in about driver hours and how many hours drivers can drive. The other challenge is an aging workforce, so in the US right now moving into the truck driving industry is not really a job of choice for the US marketplace. So we have a very aging workforce. People are retiring and people are not re-entering the workplace, so the industry overall and even key customers that run large private fleets are working on this challenge together.

So how do we make this a more appealing industry, beyond just wage rate inflation and getting people higher wages. How do you make this an appealing job? How do you get people to move into this space? It's an industry wide challenge. We're participating in that discussion, but in the meantime we'll continue to do what we need to do to offset those costs and grow our business.

All right, that was asset productivity. You guys still with me? Do we need another walk up song or something to keep you moving? Now we're going to move to differentiating our market position. I'll take questions at the end. As I said I know you guys are going to have questions about the asset productivity conversation. We will definitely come back around and give you an opportunity to do that.

I want to shift gears a little bit now and I want to talk about differentiating this business. So, I've talked about the journey - the fact that we have now shifted to become customer centric, as evidenced by the fact that we have John Thelan sitting up here on the stage as our partner. We would not have been doing that five years ago. I think you guys all know that. We have travelled a significant distance in terms of building relationships with our customers.

Those customers who left us and came back have turned out to be some of our greatest strategic partners. I'll tell you a quick story about the journey. We were at General Mills. You guys may know General Mills was one of the customers that left us and came back. About a year ago we actually were invited to their headquarters, ironically to receive an award for our supplier collaboration with them.

I would tell you that not the award itself or being recognised for the collaboration, but the conversation was one of the most rewarding conversations that I've had during my career at CHEP. The conversation that we had with the leadership team at General Mills was we are amazed at what a different company you are now. I don't think that we could have asked for any better praise to kind of attest to the journey that we've been on that a customer who chose to leave us, who has now come back is telling us you guys are completely different.

We see you as a strategic partner. We want to collaborate with you. We want to be on the journey for the long term with you. All of that work, not just with General Mills, but with so many others has led us to the opportunity to reposition as a solutions company. Now that we've moved past those hygienics of getting quality right and getting service right and now really being embedded with our customers - understanding their challenges, understanding their own goals and targets and their own performance metrics and what it is that we can do to support them is what has opened this door for us to reposition as a solutions company.

The other thing that has opened the door though is the fact that we have massive skills and capabilities. We've bene running an awesome supply chain here in the USA since 1990 and we have built brilliant capabilities about how to do that efficiently for ourselves so that we could move our assets efficiently. So that we can take cost out year-over-year and so we have something to offer them. We have significant skills and capabilities related to supply chain, related to operating transportation efficiently, related to all the things that go into moving assets.

We now realise that our customers are hungry for that, so they're all working harder than ever to take costs out of their supply chain and we have skills and capabilities that will support them in doing that. That has led us to this reposition as a solutions company. I want you to think about what's happening over a decade, because this is transformational.

We are literally repositioning our value proposition to be a solutions company rather than a pallet renting company. That is a significant shift and that is a journey that is going to occur over the next decade. I want to set the stage for you about how we're thinking about this and how you're going to see this unfold. It's going to unfold over the course of many years.

The first way that it unfolds is it makes us different. So the first conversation is we could do a lot of other things for you, besides rent you a pallet a great rate and meet your quality needs. That's the first conversation. If you think about our traditional competitors and the ones that we would call our competitors today can't offer that number one. Before the conversation was I have a pallet and you have a pallet and whoever has the cheapest pallet is going to win this conversation.

Now the conversation is yes we all have a pallet, but we also have an arsenal of supply chain capabilities that will help you take costs out of your supply chain. Let's talk about multiyear value creation. Let's talk about transportation collaboration, helping you deal with industry inflation. Let's talk about value stream mapping. Let's talk about all the ways that we can help you take costs out of your supply chain, beyond renting you a pool pallet.

That differentiates us at the table and we are experiencing that now. Right now when we're head to head with one of our pooling competitors or of course a whitewood competitor at the table, our conversation is so much richer and so much bigger and so much more mature in terms of what we can bring to our customers. They are seeing that and they are acknowledging that. They are telling us the reason that they're renewing with us or the reason that they're choosing to move to us is because of our supply chain solutions portfolio. They see that we can do more to help them achieve their goals than just renting them a pallet.

The second stage of this is it is helping us protect existing business for sure. When we sit down and we talk about renewing business or PECO or iGPS or anyone else shows up at the table to compete, we are certainly different and have more to offer our customers in terms of value. Secondly it's letting us win new business. We're able to go into other places and offer more value than we have before. We're going to protect and we're going to win through this strategy. That's just about the core business that you already know and see today. It's just strengthening that core business.

I'm going to show you some growth numbers when we get into the growth section. You'll clearly see that we're winning new business; well beyond what you would expect related to organic growth and part of what is enabling that is this conversation about solutions and incremental value. You've got to think about the long term here when you think about this program. We are positioning to be a true value creator well beyond renting or selling a pallet.

Then the last piece is we feel very strongly over the next decade we will be able to diversify our revenue streams and we can really make that top line look different. I'm not here today telling you to put that in your model and look for it next year because this is a long burn, but we are building business models now around these solutions to see what would pricing look like, what would market sizing look like, what could we really do to explode some of these solutions, to diversify the top line into services and other offerings.

Pete talked about fractionals. We are putting fractionals in because we've launched them and they're traditional pooling products that we know today and that we do in other countries today. There are many other things inside the solutions portfolio. In a little bit I'll show you a video that kind of describes what those are so that you can get a better flavour.

What you see next is actually a branding campaign and the reason that I didn't lead with this, even though it looks great is this is not about a marketing campaign or a tag line and I want to make sure that you understand that. It's great work and it's sophisticated and we love it. We have repositioned and we have done some new branding and we've done some campaigning around what it is that we offer. What is important is what is underneath that.

The fact that we are generating real value for our customers. I'm going to take you through some case studies that demonstrate that here after we see the video. This is an example of the way that we are marketing this in the marketplace. The tagline is this is the supply change, instead of supply chain. Also, you can see that we're talking about value for the customer in the way that we're presenting this. So taking the air out of empty loads.

It's not about helping CHEP reduce our transportation costs by collaborating with you, it's helping our customers take our empty miles, helping them use their existing assets more efficiently, helping them get better asset utilisation if they're running empty miles or backhauls without our pallets in them. This is the kind of work that we've been doing and again you'll see some more of that out there in the hall.

What I'd like to do next though is actually show you a video. This is a commercial marketing marcoms material that we put together. It emphasises our solutions portfolio for our manufacturing customers. I'll just let you take a look.

[Video plays]

All right, so hopefully that gives you a flavour when I talk solutions what we mean by that. These capabilities that we have amassed inside our business, we're now taking to market and we're offering those solutions to our customers to help them take cost out of their supply chain.

I thought what would be best next is that I bring it to life for you and give you some case studies so that you can see that this is truly gaining traction in the market. We have some very important and key brands represented her who have been collaborating with us on this work. I'll start with the first one which is Walmart.

Walmart has engaged very deeply with us around transportation collaboration. Transportation collaboration is actually one of the solutions that we offer and you'll see outside in the break hall that we have materials around each of these solutions. This is transportation solutions for retailers. So we've engaged in collaborating with them.

Walmart has a publicly stated goal to better utilise their private fleet. They have one of the world's largest private fleets. They've stated very clearly that they have some underutilised assets and they want to utilise those more efficiently. We took their stated goal, their target as a company. We went to them and said we can help you do that.

We're moving all over the country and you're moving all over the country, often on your way home empty. Let's work together, let's collaborate, let's use your fleet as a transportation provider for CHEP pooling. We've engaged deeply with them and they have become now a transportation provider for us and we are actually purchasing transportation directly from Walmart.

What you see here represented is literally Walmart's testament to the work that we've been doing with them. This is a quote from their head of inbound logistics, who is stating here that we're helping them taking empty miles out of their network, helping them utilise their assets more efficiently, but also doing good from a sustainability perspective to take out carbon footprint from the system.

It's a great example of us taking our needs, their needs, mirroring those together and creating value for both teams. What we get out of that is a cheaper transportation rate. They utilise their asset, they generate some revenue from CHEP for that asset to move CHEP pallets. They offer us a discounted rate because it's a backhaul for them and they were moving anyway. So everybody wins in this triangle of transportation collaboration.

I think it is important for me also to note guys that we're talking about Walmart, so I know that we've had a history with Walmart and it's one of the things I'm also most proud of when I stand here today is that the relationship has evolved dramatically - that we're now collaborating on these types of initiatives together is also a massive distance that we've travelled in terms of creating value for our customers and becoming a true partner to our customers including Walmart.

The second example that I would like to give you is with PepsiCo, which is also a great story because many of you might recall that Pepsi also left us back during the iGPS market entry period. They have returned now as an amazing collaborative partner and they are a wonderful customer. We're delighted with the collaboration work that we now do with PepsiCo. They're one of our most strategic collaborative customers and partners in fact.

PepsiCo has been taking advantage of unit load testing inside our innovation centre, so when we brought this opportunity for them to utilise our innovation centre to help make their unit loads more efficient, they took us up on that offer and in fact they came in and did some extensive work with our team around helping to reconfigure one of their products and how that product is loaded on a pallet. Then how that product is put into a trailer and moved down to the store.

We found a configuration for them that has allowed them to get a dramatically more amount of product into each truckload. They're more efficient, they're loading better on the pallet, they're getting more product into the truckload and they're moving less trucks across the country. Their product is arriving more efficiently to their customers.

Again, it's another great example of bringing true value to our customers through these solutions. Our customers were happy for us to reference them here today to use these examples and to share with you the kind of collaboration that is taking place between our companies. I think it is very powerful to just see the brands represented here and see the types of companies that are taking advantage of our solutions and collaborating with us.

There are many more stories like this and we're happy to talk with you offline about those, but hopefully this gives you a flavour for what we mean when we talk solutions and collaborating with our customers.

All right, so that's go to market in differentiation and now I'm going to end on our last topic, which is growth. I know that you guys are keenly interested in how we are growing the business and I'm going to take you through some discussion about growth.

I think it's good that we start with actually how are we expanding our market share. So this chart here represents what's been happening inside the North America business since FY11. It represents the layers of growth inside our business. I know I was talking with some of you last night and you were asking me questions about things like organic growth because you may be hearing from CPG companies that they aren't seeing growth. Well we are seeing growth in like-for-like business and we are seeing it year-over-year through FY15. We're seeing it into this year.

So what this represents here first of all is that dark blue bar on the bottom of each of these bar charts are like-for-like growth. Organic growth is happening, like-for-like customers are growing year-over- year despite what you may hear in the anecdotes and different interviews. We have a significant amount of data here and some very large CPG customers represented in our like-for-like numbers. They are growing year-over- year.

The important thing to note here is that is not really where most of our growth is coming from, which means that we are growing and winning new business which is equally as important. The next bar that you see here though is pricing. I know many of you have questions about price and are you giving up price to keep business? What's happening with pricing?

As we've said and I've said this to you several years in a row, we're going to take moderate pricing when it makes sense for our business and you can see here that we have been steady and even and continue to take pricing. We've certainly moved forward and achieved pricing and it's been moderate. It will remain moderate.

We think the real way to continue to grow this business profitably is to take cost out, become more efficient, but we don't want to grow margins on the backs of our customers by slamming price out into the marketplace. We do not think that that is the right approach to grow this business for the future. We'll take price when it makes sense.

Someone asked the SME question - was that Anthony - one of you guys asked - someone asked about SMEs when Pete was up on stage. Just to quickly let you know, we're definitely growing in the SME space and in fact we grew 12.5% year-over-year in the SME space - the small to medium enterprise customers.

Just so you have a flavour for that, typically they are about 20% higher price customers. I probably never gave you that number before, but I'm giving it to you today, so we like SME, it's a smaller customer, we can command a premium. It's not as convenient to service them. There are lot of reasons why we can command that premium but we are and we're growing that business. That's making our top line healthier. It's making our mix of customer base healthier to grow in that small to medium enterprise space rather than just sit on a couple of huge big CPG companies that make up 80% of our business.

We're continuing to expand in the SME space. That does allow us to get some pricing as well when we grow inside that layer of customer segmentation.

Then next what you see here beyond price is net new business wins. This is the best story. So what this means is that we are gaining market share year-over- year and we're taking that space. I've shared with you guys market sizing charts quite a few times at various IMBs. Many of you guys will remember the bubble chart and the billion dollar opportunities that we've talked about over the years. We are continuing to win in that space and take business and grow in those opportunities.

I'll show you some segmentation about how we're looking at that here in a second. Then of course you can see what's happening with the recycled business. That's the top bar on the bar chart and the recycled business does continue to grow. Keep in mind that it grows with almost no capital. There's every reason that we would want to continue to put energy into growing that business and improving that business and we will continue to do that.

How are we growing? There's two areas, expanding the core which is a lot of what we've been talking about here. So launching that solutions portfolio to keep winning business, to keep differentiating ourselves in the marketplace against whitewood competitors, to hold onto business against pooling competitors, but also we're doing extensive segmentation.

Back in Sydney at the last IMB I talked a lot about segmentation and you guys might recall, I showed you the retail grocery store and how we were breaking down penetration by segment. We've continued to do that work and I'll show you how we're attacking some of these opportunities through segmentation. We also fully intend to grow the recycled business.

We have a strategy in place - a five year plan to grow into 20 new markets inside the recycled business in the USA. I'll take you through an example of how that works, but we certainly intend to grow that business as well.

Brambles

Then new products and new verticals, which I talked a great deal about when we were in Sydney together at the last IMB. The idea of launching the half pallet is now alive and well. I showed you the pallet. I talked about the ways that we were going to enter the market. We have launched that pallet in the marketplace and I'll talk a little bit about that in another slide and how that's progressing.

Then the other is new verticals. New verticals you guys will recall I talked about specific channels. Pet care, auto after market, home and hardware, we went through those opportunities to grow in those spaces. We are continuing to build those relationships. We are continuing to build asset recovery engines and that will also be a slow development purposefully.

We could go out now with the relationships that we have and we could shoot pooled pallets down those new vertical channels, but we would also move backwards in terms of the work that we've done on asset productivity.

The way that we are entering those new verticals is through building back end supply chain solutions to recover our assets. We're going to do that slow and steady and we are not going to move pooled pallets through those channels until we have recovery engines for our pallets.

We're entering those markets through things like sweeping back docks for pallets, buying whitewood cores from those types of retail customers so that we can gain control and access to the backend before we move pooled pallets down that channel. That is the only prudent way to go into those verticals is to create the back end first and make sure that you have a recovery engine.

It's a real supply chain solution solve and we're using our supply chain capabilities to unlock each of those channels one by one, retailer by retailer.

This is a bit of an eye chart, but this is segmentation at its best. I'm not going to take you through the whole thing, but what I want to show you is that we took that billion dollar bar. If you guys go back to the market sizing for CHEP North America which we've shown you many times, you will recall on there, there is a bar for about $1 billion of what we think is available pooling space - space that we should grow into today that is ripe for pooling.

It may have whitewood in it today. It may have a competitor in it today, but it's a space that we believe we can rapidly move into and pool pallets. What you see here are four quadrants. We have literally taken our existing business and we've put it into four buckets. The left hand top left is protect our business, so customers who are almost fully penetrated. We don't have much space to grow but we love them. We want to hold onto them. That's what you see in the top left hand corner is protect and that represents about 25% of our top line.

We've now kind of segmented this to understand how penetrated we are in different parts of our top line. So 25% of our business is in a protect category. We have account managers, people taking good care of those customers, bringing solutions, finding ways to add incremental value so that they are sticky and they love us and they continue to do business with us.

On the top right hand side you see strategic accounts. These are accounts where we have opportunity to continue to expand - lane expansion with existing customers. We're 66% penetrated. So there is still room to grow inside that type of customer base that we hold today. It represents about 58% of our top line. Again, we know where we are and we know how penetrated we are and we have a team organised around actually growing lane expansion inside those strategic customers.

Next you see down on the bottom left hand side is SME, so small to medium enterprise customers which I mentioned just a moment ago. We have a lot of room to grow here which is great. So 58% penetrated, out of that opportunity that we think is available and 16% of our volume is represented there today. We have continued to grow.

You guys will recall back in LA in 2010 we had just introduced this concept of going after these smaller customers. We do continue to gain market share and we continue to diversify our customer portfolio with these SMEs. We love this sized customer - highly profitable and many of those customers I shared with you guys actually become larger customers.

They sign on and they get classified as small to medium, but they actually expand into larger customers and we maintain the higher price points when they do that, which is a really good story for us. Then last on the right hand side - emerging can be a misleading word, so emerging - don't think of emerging countries or emerging businesses. We call them emerging because they're on the horizon, so where they are sitting in our funnel.

They are emerging opportunities. Some of those would be win backs, customers we don't have today. Some are customers that are new conversions from whitewood that are sitting in our funnel that we want to bring in and close that business. This is where the largest opportunity exists. We have literally segmented this out by segment, by vertical so that we know exactly where this business is and we've organised our sales team around attacking each of those segments of these emerging customers.

Again, I show this only to illustrate that we've taken segmentation to the next level, since I last talked with you at Sydney. We've exploded this now. We've broken down that billion dollar bar and our sales team is completely organised around each of these four quadrants and how we're going to grow inside each of these four customer categories if you will think of it that way.

Next is a half pallet, so I want to hit on our progress around fractionals. Back in Sydney at the last IMB I showed you the half pallet. We talked about the use cases for it. Pete has mentioned it again here today. There's really two uses for the half pallet, one is promotionals. One is store replenishment. In the USA market today this is an example of a customer who is using our half pallet for their promotionals.

It's a great value proposition for them because the half pallet that we are producing out in the market place is very sturdy. It holds very heavy loads and our canned good and bottled customers are really enjoying the durability and the unit load that comes - their ability to put a heavy unit load on this pallet. We're seeing great progress and we're making progress.

What I want to emphasise to you is this is not right now about how many revenue generating issues did you get on the half pallet? The way that we are entering the market is around setting the US standard for the half pallet. We could just shoot this out and we could get a lot of people to rent it and use it because they're using half pallets today from the whitewood industry that are non-pooled and non-standard.

A market exists for the half pallet. The key to making sure that the half pallet is sustainable and is successful over the long run is getting into the planograms of our retail customers so that they are specifying our half pallet as the promotional pallet of choice. It's getting into the merchandisers' specifications for how they promote their product with retailers.

Our measure of success right now is getting in planograms and it's getting into the merchandising specs. That's how we're measuring success. As we achieve that then we flow volume and we issue the half pallet to our customers and they use it in the supply chain.

As you enter a new market and you introduce a new product one of the missteps that we don't want to make is to not be established as the standard. What will then happen is there will four other half pallets slightly different than our half pallet and everyone will be jockeying to get their half pallet out into the market.

We want retailers to accept it on the planogram as the stated specification for the half pallet and we want manufacturers to put it in their merchandising specs for promotions. That's where we're focused. Right now today we have greater than 65% of our retail customers engaged with us and advocating for piloting and testing and understanding our pallet so that it can make it onto the planogram.

This is a slow and steady wins the race program that we need to do right from the beginning. We need to be specified in the market as the US standard. That's how we're going to continue to grow and develop our half pallet. Then we hope to follow with a quarter pallet in the coming year.

We've started some collaboration with customers now around the quarter and what might that spec look like and what might that use case look like. We're going to be very methodical about how we roll this out and make sure that we do it right from the beginning.

Then next I want to talk just briefly about the recycled business. We're almost done here guys so hang in with me and we'll get to questions. The recycled business is really important and I think it's an awesome business. I think someone referenced it as a gem earlier.

It is a super, super cool business and it's complex and it's interesting and we really like it and I think that it enhances our portfolio and we talk about our solutions and being able to offer our customers more. The pallet - the recycled pallet is one of those platform offerings.

There is a need for recycled pallets beyond the pooled pallets, so having this in our portfolio is very important in terms of giving our customers a choice. The other thing that is great as I said to you before, about this business, it is a very low capital investment business, which means that if we continue to improve this business and optimise this business it's a great way to generate cash, with very little capital investment.

Again, it's lower margin. We have to run it well and we have to run it efficiently but when we do that we're really going to enjoy the benefits that come with this because of the low capital investment required.

The way that we want to grow this business is we're actually done - we have done significant market segmentation. We've identified 20 markets where we believe we should expand geographically inside the US market.

We've looked at our current infrastructure today. Where are we sitting today? Where are used pallets - cores as we call them, ending up inside the US supply chain? What market should we expand to, to gain access to those cores so that we can refurbish and sell them as finished goods?

We've done a significant amount of work around segmenting this and we have a strategy over the next five years to move into 20 new geographies inside the US business. This is an example of what we're doing, so you're going to go to Riverside tomorrow.

Riverside is a plant that's about an hour from the hotel here. We've always said that Riverside is kind of our LA facility. What you find inside that is that Riverside is not serving the entire LA market. Once you break it down and you understand where core supply is landing and where customer demand is sitting we actually have a significant opportunity to expand beyond this Riverside, San Bernardino area and move into LA proper.

We've already started now positioning cores inside that market and actually selling inside LA proper. We can reposition inventory from other markets like Phoenix where we're sitting on a significant amount of inventory and we can move that inventory down into the LA market and create an opportunity to sell further into LA. This is an example of where we've looked, where are we sitting today and have we taken all the market share that is available to us? The answer is definitely no and we have this opportunity expand further into LA. We've already started this now, and it's quite simple in fact. We've started by adding a salesforce in this market who can now just go ahead and start selling through LA and pooling these recycled cores and these finished good from other markets.

Tracy Scott, who I think was introduced earlier by Tom yesterday, is sitting back here by Cathy - was recently appointed as our general manager of this business. He's already taken this growth strategy and started mobilising his team around it. In fact, we just won a large piece of business in LA two days ago as a result of this effort. So we were already seeing progress around just putting feet on the ground in the right places. Eventually it may lead to greenfields or we may open plants but right now our existing infrastructure gives us a place to grow without adding any bricks and mortar. We're simply just putting more resources in place to grow the business, and very minor resources. We're not talking about a huge addition of overheads; we're talking one salesgirl in LA now who's closing business for us and we're expanding into that market and repositioning finished goods.

So it is a great and fun business. You're going to see more from it. We're going to continue to optimise it. The key to this business is getting the raw materials, procuring the cores at the best possible and most efficient cost and then converting those and selling them through. So you'll learn a lot more about it tomorrow when we take you on the plant tour. Tracy is going to walk you through the business model, really explain how it works, but it is a great business. So I would say stayed tuned because you're going to see a lot of good stuff and a lot of opportunity to generate cash from this business with very little capital investment.

Speaking of - this is my last slide, guys, you'll be happy to know. We are going to tour Riverside tomorrow so I hope you guys are going to join us, but you're going to start by going to one of Wolfgang's RPC facilities but then we're going to take you over, those who are participating, to actually see the Riverside plant. That was the example that I just showed you a moment ago, we're going to take you there and give you a tour. On this tour you're going to see several things. You're going to see the recycle business and how it works, and when we say cores what do we mean by that; you'll get to see all that happening, but you're also going to see the synergies at work.

This is a location when we combined our supply chains and we took that $35 million of supply chain cost out of the USA network. You're going to get to see a pooled pallet repair cell sitting inside this whitewood recycled plant. You'll be able to see what this means and how did this work to pair our networks together. Then the last thing that you're going to get to see is actually the implementation of those T3 clinch nails inside to the pooled pallet. The blue repair cell, the pooled repair cell at this location is actually installing those clinch nails. So tomorrow should be pretty interesting and you'll get a good flavour for all three of those topics.

All right. With that - that was a mouthful - how are we doing on time, Tom, are we good?

James Hall: We've got plenty of time. Lunch is ready whenever we want to have it. I would say we'll cut the lunchbreak down to 45 minutes and be back in here at 1:15. So we've got time for some questions now, 10 or 15 minutes as necessarily.

Kim Rumph: Great, all right. Let's take questions.

Unidentified Participant: Kim, you talked a lot about asset recovery. Can you talk about the asset recovery program with the recyclers and how much you're relying on that at the moment?

Kim Rumph: Yes, absolutely. They're a very important part of our network. I shared with you guys a couple of years ago that we're actually collaborating very heavily with recyclers to help get other recyclers in the program. They're a key part of our asset recovery strategy today for stray assets and in some cases they're acting - some of them, the larger ones are acting as consolidation points to collect from smaller recyclers. We are definitely counting on them. They are key partners for us and a big part of our asset recovery program.

Unidentified Participant: Roughly how much of pallet returns are coming through that mechanism?

Kim Rumph: Well, it would be the NPD channel which we don't disclose publicly because that's pretty sensitive information for our competitors to know how many NPD flows we have. Most of our NPD flows come back through asset recovery, so retailers - NPD, for those of you who don't know that terminology, non-participating retailers, so retailers who are not in the pooling program with us. When assets flow through their channel we recover most of those through asset recovery. In some cases we have a positive relationship with that retailer and we may have an agreement about how they're going to allow us to collect our assets.

Unidentified Participant: Okay. Then also in terms of losses, you talked about the IPEP charge coming down a fair bit as a percentage of sales. We used to think of the loss rate as being something like 2% to 3%. Has that fallen I take it below that level now?

Kim Rumph: Yes, in the USA it is below that level, yes. I think you normally get loss rates probably on a global scale so I will just tell you that we're lower than that in the US.

Unidentified Participant: Okay. Then just about - just turning growth, on slide 59, the one where you broke down the net new business price et cetera, '12 and '13 were obviously boosted by the iGPS win-backs, '14 a little bit I think as well, but '15 is still about 2% growth from net new business wins. Is that how we should think about a sustainable go-forward rate, do you think, around that 2%? Is there any reason why it's not sustainable from that that you achieved in '15?

Kim Rumph: Well, we won't continue to grow at the same pace. My hope is that we're better than that but yes, you should certainly see us continue grow post those iGPS win-backs, which you saw that spike when we were bringing back those large customers. You should expect that we can continue to perform as well as we have through '14 and onward. We certainly hope to outperform year-over-year, that's our objective, but you should continue to see net new business wins from us, absolutely.

Unidentified Participant: Kim, hi. You talked about transport costs, and thanks for that, but repair costs have been a more significant contributor to the increasing costs over the last 18 months. So when do we see repair costs come back to inflation do you reckon and if you can talk about damage rates and what you're seeing on damage rates.

Kim Rumph: Great question. If you actually look at repair costs per issue, repair cost per issue is really not trending that far off of general inflation. But I will tell you that repair costs are increasing as a result of damage rate increasing, which is why I talked about pallet durability so much. As we have embarked on returning more pallets and losing less pallets and injecting less new pallets, we're definitely seeing a rising damage rate. So the durability initiative is designed to offset that. For us it's a five-year program but we anticipate that we'll start to see benefits of that program over the next year, and it will slowly phase in as the health of the pool rises from these initiatives. I think you should look over a five-year period to see this whole durability initiative take root.

The other thing I would say to the growth question is the faster and more that we can grow the more that we can inject new assets into the pool to support that growth, the more that we can improve the health of the pool. The real objective here is grow as fast as you can and have a good reason to inject these new assets, because if we can continue to replenish the pool with new assets in the name of growth then we can certainly lower the damage rate much faster than the durability program itself will do alone.

Unidentified Participant: But we will see higher repair costs in FY15, is that fair to assume?

Kim Rumph: You should continue to see repair costs generally at the same rate that we have seen. We've experienced I think the impact of asset productivity, of reducing losses and stopping the new pallet injections at this point. I would look forward to be consistent generally. Do you like that, be consistent generally?

Unidentified Participant: On asset management your loss rates are lower because you're going further and tracking pallets better. The offset of that is higher transport costs to track the pallets. How do we get comfortable that this project's return is accretive and that it is worth the higher transport costs?

Kim Rumph: It's definitely worth the higher transport costs. Think of this way - and I'm sure you probably have - but the alternative is not returning that pallet, writing off that pallet and then recognising we're in a very Lean environment related to P-stock which means we will buy another pallet. If you just think about the financials of writing off a pallet and then buying another pallet to replace it versus incremental transport costs to bring it home, it's definitely more accretive for us to return that pallet through incremental transport costs versus write it off and buy a brand new pallet. That's how I would think of it, think of it as a CapEx versus OpEx trade-off, and you'd much rather not spend that CapEx and put that incremental transport cost back in. Yes.

Anthony Moulder: (Citigroup, Analyst) Hi, Kim. Just a question, or a couple of questions, starting with this repositioning to a solutions company. I guess we've seen LeanLogistics within CHEP for a little while. Why haven't we seen a lot more benefit coming from Lean if that's one of the focuses that you have in repositioning to a logistics or a solutions-based company?

Kim Rumph: I'm going to let Jason or Tom - I don't run Lean so I don't want to speak for these guys but I want to let one of you guys take Lean.

Tom Gorman: I think we can cover this later, in the end, in the wrap-up questions. We can cover this at the end as well. Look, Lean is a really small business for us, only since '08 actually; it was acquired the month before I joined the Company. I think for us to think of Lean as someone that's going to transform our Company is probably a mistake. I think what Lean has done for us is it delivered enormous amount of value internally. As our TMS solution in virtually market with virtually every customer, or every business unit, we believe that they're created enormous value in terms of supply chain efficiencies that we otherwise wouldn't have achieved, and I think that's clearly been documented on our part. We think it's a valuable business to us, either or both internally as we measure it or even looking at it as a standalone business we think that it has real market value.

What we have been thinking about - and I mentioned this yesterday in innovation - is there a way for us to think about ourselves more broadly offering supply chain solutions that Lean offers. Lean is a SaaS-based business, but they're really a software business. I think that what we have struggled with in this space is, is that an area that we can deliver that level of expertise to our customers? All of the things that Kim said and has listed here in terms of our service offering, that's really in the sweet spot or the wheelhouse of what the CHEP business does today.

Lean as a SaaS provider is a little bit different and it's more of an adjacency than actually part of the core of the business. What I alluded to yesterday, as we're continuing to evaluate what are the alternatives with Lean; should we be growing Lean more aggressively? Should we be combining it with other businesses? How does it fit into the portfolio of businesses that we have? We'll be touching on some of that when we do the portfolio look with Zlatko's stuff and maybe come back at the end of the day to touch on it as well.

Lean as a business to transform the rest of Brambles probably is asking too much of them to do that given their size and the overall impact, but as a business that has created enormous value for us internally I think we've absolutely hit a home run there. The next step for us is going to be thinking about is this something that we should be building aggressively or is this something that is more of an adjacency to our core. I think we're still wrestling with some of those things, Anthony. What I'd want you to leave with today is that as part of our Company over the last seven years we think we've gotten enormous value from Lean just in terms of the expertise that they brought to CHEP and honestly, we don't think that we would have had that had we not owned them. Going forward, I think that we're open to a series of different possibilities with that business and also in the space of being a SaaS provider in the supply chain.

Ben Chan: (Evans & Partners, Analyst) Hi, Kim. Ben Chan here. I'm just interested - I know this is a longer-term thematic, but just interested in your comment about diversifying the revenue stream from solutions. How do you intend charging for the solution-type service? Is it a fee for service, an annual fee, a percentage of value created?

Kim Rumph: It's a great question. Of course, in every case that we can we're going to want to devalue base pricing. As we're looking at the solutions and engaging with our customers and in some cases even just testing these concepts of how would you price them, our objective whenever we can will be value-based pricing. We generate $1 million in savings for you; we want to take a percentage of that value back to compensate for our services. Very rarely are we going to want to charge for our service by the hour or for a number of hours of testing in our innovation centre; that's definitely not what we're looking to achieve here.

We want to talk value and we want to talk about sharing that value. In some cases there will be no charge. Transpiration collaboration as an example is about us lowering our cost per lane. It's about buying transportation from a customer at a cheaper rate. In that case there would be no charge, we would just enjoy the benefit of a better transportation lane rate. It really depends on the solution. We're building those business models right now so as we're engaging in these solutions with our customers we're testing these, we're charging for some of these services now by the way and we're playing with the models to see what is the most accretive way to charge for it and still create value for the customer.

Cameron McDonald: (Deutsche Bank, Analyst) Kim, Cameron McDonald from Deutsche. You've talked a bit about asset productivity and the improvements that you're trying to make in the business, yet at the full year result the CHEP USA pallet control ratio was lower. What's going on there? Why would the productivity not flow through?

Kim Rumph: Well, a couple of things. First of all, control ratio is not always a proxy for losses for one thing. It's really important to understand control ratio can be highly seasonal as well and also customer behaviours around inventory management can also impact control ratio. Just because you see control ratio move does not mean that pallets have been lost, it means that something is changing around how that pallet is being handled. That could affect things like terms and cycle time but it doesn't mean that it affects losses at all.

I think you have to really understand what's driving control ratio before you could make an assumption that it is a proxy for loss, because in no way did we have any indication that a movement in control ratio is a movement out of control related to asset losses. In fact, we have quite the contrary. We are counting a huge percentage of our assets every year through our methodology for audit losses and control and we're seeing quite the opposite, which is that everyone is in much more control than they have been in past years, and we are losing less assets.

Cameron McDonald: (Deutsche Bank, Analyst) Sorry, can I get some…

Tom Gorman: [Unclear] that because there were two things that we covered at the earnings release. One is that we are seeing an extension and a buildout of inventories, which we're very clear on, and we mentioned the fact that we're actually putting more plant stock in from the beginning of this year. That's really been caused by what we're experiencing with the growth in inventories. We shared some data in our earnings release to back that up in terms of what the US is experiencing in non-automotive inventory growth. So that's the first issue.

The second issue, which we also covered at the earnings release, is that the control ratio - I think the trends of control ratio are very important over time, but the fact is that it's not adjusted for growth either. There are two factors I think in the US. We are getting some growth and it's not growth-adjusted and we are seeing this issue with slight growth in the inventory levels. In fact, our cycle times have been reduced in the US, albeit marginally in the period.

Cameron McDonald: (Deutsche Bank, Analyst) Can I then just ask, factory orders have fallen quite dramatically and yet you're saying that you're seeing inventory build-up and you think that's going to be positive and yet the retailers or the orders - who are putting these factory orders in don't seem to share that level of confidence because they're not re-ordering any inventory.

Tom Gorman: I think Kim, I have to jump in because this goes back to what we said at the earnings release where you didn't participate. Just to be clear, what we indicated was that clearly inventories are growing in the US and we presented the data to show that to you. Subsequently, actually, we spoke to the Amcor guys, those of you that are Aussie-based and would know Amcor as a company. Look, Amcor is not seeing exactly the same things but Amcor is heavily, heavily weighted to beverage in the US and they're heavily weighted to one brand in beverage. Their exposure is to Pepsi in the United States.

I don't think you can always look at their data and what they say, and in fact they have been through our stuff and I've spoken to them specifically about what we're seeing. We are seeing a growth in inventory in the US and we've stepped up to say that in our growth CapEx we've actually allotted about a million pallets, or $25 million, in the year to beef up our plant stocks. A little bit of CapEx OpEx trade-off but also to make sure that we don't short our customers, but then we did go on to say that we don't actually know if that's going to lead to pull-through and a higher level of demand. We just don't know that. Typically, I think we're probably accused more often of being the more conservative guys in assessing the market, but we are seeing a growth in inventory. Whether that manifests itself in FY16 in pull-through and a higher overall level of demand, to be fair, Cameron, we said we just don't know but we were going to make sure we didn't short customers so we were investing in some more plant stock.

Kim Rumph: We can also toggle down new pallet purchases. We're addressing this, what we believe to be restocking of inventories in the retail chain and we can just as easily turn down new pallet purchases in the second half if that doesn't manifest in pull-through. I'm not concerned about managing plant stocks and over-purchasing assets; we have - now that we have all of our customers off of new pallets we'll buy pallets only when we need them. If this restocking turns out not to result in top line sales and it just pushes through we'll just toggle down new pallet purchases in the second half and we'll have a good inventory level. We're certainly not buying the pallets because they're lost, we're buying them because we see retailers building inventory.

Then the last thing I would say, Cameron, and I mentioned this to you last night as well, is we are still seeing like-for-like growth with our customers. So though you might be hearing that manufacturing is toggling down or that people are producing less inventory, as I showed you on the chart like-for-like sales are up. So we are still experiencing growth with existing customers. Yes.

Unidentified Participant: Just on page 50 on the durability program, you talk about 25% of the pool in FY16 for the clinch nails and the nail plates are 60%. I was just trying to understand that in terms of the rationale for doing just the 25%. Is that a logistical thing? That was the first question. The second question was the plant costs which obviously brought margins down by 3.1%, roughly about $70 million. How should we think about that over a four or five-year period? Do you think you'll get - because that must be linked to damage rates directly, so understanding how that comes back.

Kim Rumph: Yes, of course. The 25% ramp on the clinch nails is just a function of capacity. We are slowing down obviously our plants as we install these two, three clinch nails. So we just have to be very mindful about how fast we ramp so that we can still produce finished goods for our customers. We'll move as fast as we can, and we're now exploring what are those productivity impacts of slowing down at the repair table and installing these clinch nails. So as we get them ramped if it makes sense to move faster and we can still generate enough finished goods and that will have a drag on capacity we'll go faster. That's what the 25% is all about, and also just the availability of the new nails and getting the nail guns and ramping up our suppliers that are providing this, we're phasing that as well. The faster we can move the suppliers and our repair employees, the faster we'll go. So it's a very good question.

In terms of repair costs, the whole objective of this initiative is not only to make a better pallet for our customers but it is to lower repair costs. The objective here is that that increase in plant costs is going to be mitigated somewhat through the pallet durability program, and time will tell, and you'll see it revealed in our numbers what that reduction is based on what damage rate improvement we see and how this thing plays out and how fast we go and, as I said earlier, how fast we grow. So the faster we can inject new pallets the faster we can push down plant cost as well.

Paul Butler: (Credit Suisse, Analyst) Hi, Kim. It's Paul Butler here. Could you - just on a previous question you had, could you just explain how you get a return out of the work you did with Pepsi on increasing the load on a pallet? Because obviously they now need less pallets. How are you getting a benefit out of that?

Kim Rumph: Pepsi is a customer where we actually have a joint business plan together. We have commitments to collaborate with them to help create value in their supply chain. It all depends on the customer. In some cases we have customers inside the innovation centre today that are actually being charged for the service as we look to see how much value we can create for them. As I mentioned earlier, we're testing the business model. Should it be a services model, should it be a value-based pricing model? We're actually now exploring those business models. The value will come from either sharing the value or from a joint business strategy where together they say we're going to renew business with you for many years if you help us also take costs out of our supply chain each year. Or in some cases we may charge them by the hour for services inside that facility. So we're still playing with all those models now to see which one makes the most sense.

Paul Butler: (Credit Suisse, Analyst) You're saying in the case of Pepsi basically you're getting a higher rate per pallet?

Kim Rumph: No. Actually, first of all I'm not going to comment specifically on Pepsi and our commercials with Pepsi because that just would not be appropriate at all. What I would say is that we're certainly collaborating with them and we're getting value and they're seeing value as well otherwise we wouldn't be doing it, but I can't specifically comment on that; it would not be appropriate.

Paul Butler: (Credit Suisse, Analyst) Okay. Just one more…

Tom Gorman: I think I did just want to say one other thing because it's not just North America-based. I think there's something going on here that's far more than nuanced, so I want to make sure it's very clear. A strategy of relying on the ignorance of your customer to build your business is a flawed strategy. As a provider of a service, if we see an opportunity to improve your business, we should present you with that opportunity to improve your business, irrespective of what it does to our business in the short term. That's a fundamental belief that I think everybody in this room has, on our team. If wait for them to figure it out and then they say well, what role do you provide to us, you look at the same stuff we do and you're happy just to keep on flogging pallets with us. We don't believe that that's the Company that we're trying to build.

We're fundamentally trying to build a solutions company, so if we see an opportunity to make your business more effective that's what we're going to do, and then what does that do for us? In some cases, Kim is spot on, we have joint business plans so we help them save money. That does transform itself to better pricing to us in some cases. Sometimes it leads to growth opportunities in other parts of the world. PNG is probably the best example of that. But in the long run it's making their supply chains better. These are not just words that these guys are writing down. We fundamentally believe, and Peter would tell that his purpose is to make supply chains better. If you don't believe that then you're not on the same page in our Company any longer. That's what we're trying to do.

So in the short term do we flog a few fewer pallets? Yes, I think we do; definitely we do. Having display pallet solutions which are a better solution than dragging a full-sized pallet and jamming it at the end of the aisle where customers are going to trip over it and the retailer is not happy, look, maybe that isn't as great a revenue opportunity for us in the short term but in the long term we're providing a better solution. I wouldn't want you to miss that. This is far more than nuance. We're trying to create a Company that's far more driven around delivering the solution that's best for the Company, if we can see it. If we can see it and we don't bring that solution I would tell you, shame on us, and that's not what we're trying to do. It goes well beyond North America and it goes well beyond pallets; it's what we should be doing in the containers business and you'll hear from both Jason, Wolfgang and Dan later, and it will be just around how do we provide solutions. So, sorry about that.

Kim Rumph: No, that's great. Thank you.

James Hall: Thanks everyone, thanks, Kim. I think it's time to break now because we've got lunch outside and I don't want to give people too short a break. If we could all try and be back not too long after 1:15 then we can get started with this afternoon's sessions. Thanks.

[Break]

James Hall: Okay, thanks everyone. Let's get cracking with this afternoon's sessions. I hope everyone got a chance to get a decent lunch. Just a few minor housekeeping things before we get into the IFCO session for this afternoon. Firstly you'd be aware that Kim was talking a lot about the solutions portfolio and the marketing campaign, there are hard copies of the marketing collateral out there; that is for you guys to take if you want to. Also, the flash drives that are on your desks on the tables in front of you contain that material, as well as the videos and as well as all the slides. If you haven't got one of those flash drives, just ask us, we've got a few of them spare that you can take with you.

Just as you're probably all aware, we're running a little late, but we've got plenty of opportunity to make up the time through the course of the afternoon. So just assume that the schedule's running about half-an-hour behind what's planned and if necessary, where we're going for dinner is not far away, so it's not too much of a problem if we do overrun a little bit in terms of getting to our evening's destination.

This evening we will be going, I think I mentioned, on the bus from outside the hotel. It will shuttle back and forth because it's a relatively short distance and then that will be available to bring us back from dinner. But as I mentioned earlier, there's plenty of bars and things around there, many of you I'm sure will want to stay out and have a drink. It's very easy to get back to the hotel on foot; it's a 10 minute walk or there are plenty of cabs and Uber works pretty well here too, as I'm sure you all know.

So without any further ado, I'll hand over to Wolfgang, thanks.

Wolfgang Orgeldinger: So Tom, thanks very much for this very Germanic music, I was actually wondering what kind of music he would choose and I was hoping you wouldn't choose the oompah music, you know? So this was obviously Wagner, if I recall correctly, The Ride of the Valkyries. Good music, very dramatic, almost as dramatic as our RPC business and I hope it woke you up, because I know you had a long day and I'll be heading to the afternoon session. I will give you an overview of our plans to expand IFCO's global position and then we have a specific session with Dan Walsh who heads up our North American IFCO business and he will tell you what we do to grow this business.

But before I start, I just want to introduce two customers. We have the pleasure to have two great customers with us. We have Roberto from Cajas Agricolas and we have Frank Ratto from Ratto Brothers. So welcome here, they're good customers, good friends; if you need a testimonial, talk to these two guys.

All right, so let me start. As Peter, let me start with the delivery scorecard for fiscal year 2015. We had a great year at IFCO, we were able to grow our sales revenue by 12% and I'm very happy that all global regions contributed to the growth. Even better, we were able to grow our underlying profit by 15%. That was really a function driven by European efficiencies and SSE. All the other financial KPIs were also positive compared to prior years, so we were able to increase the ROCI by 0.7 percentage points to 8.5% and if you take the ROCI excluding intangibles, we achieved almost 19%. We also were able to grow the Brambles added value and everything looks fine, I think, with the exception of the cash flow. We delivered slightly lower cash flow than the year before, but this was, of course, a function of the investments we took to support the strong growth.

Last but not least, when it comes to employees, which really matter the most for us, I am very glad that we were able to improve our injury frequency rate by 30% and we are now at a very good 5.4. I think this is a great improvement. I am also quite happy that our employee engagement score was improved by three percentage points and we are now at 72%. I just learnt from Peter that this is one point below the international high score, but it's one point better than you. So I'm glad we have this internal competition.

Now let's take a look to the portfolio. What you see here is that the size of the bubble shows you the size of the business, so clearly Europe is still our most important region, followed by North America, by the CHEP RPC business in ANZ and South Africa, by IFCO Latin America and lately acquired by IFCO Japan. Now if you look at the value creation frontier, you see that with the exception of CHEP ANZ and IFCO South America, all businesses are below this value creation frontier, but if you exclude ex-tangibles, all businesses are above this frontier with the exception of North America. In total, as I shared with you before, we achieved almost 19% of ROCI, so we are not too far away from where we intend to be.

In terms of the drivers of our growth, since the acquisition, IFCO achieved a compound annual volume growth of 11% during the period of fiscal year 2012 to fiscal year 2015 and this growth came dominantly from existing retailers, so we were growing the penetration. So this contributed 5.1% to the overall growth. At almost the same pace, we grew by adding new retailers. That accounted for 4.6%. Besides that, at a lower pace, we implemented new verticals which contributed with 1.1% and so far not of significance impact where acquisitions are so far only 0.2%. This will change in the next year where we fully consolidate our new companies in Chile and in Japan.

In terms of regional split, Europe contributed most to our growth, so 7.9% of the overall growth in the fiscal year was contributed by Europe, followed by North America, which delivered 2.7% and by South America with 0.4%.

Now let me now go to a regional view and let's start with our biggest region, Europe. Europe really had a great year in fiscal year 2015. The team achieved a volume growth of roughly 12% and I think that's a great achievement if you take into account that the European market is quite a mature market, that we have a lot of competition there, both from corrugated but also from other poolers and so I think this was really a great achievement and it shows that even in mature markets, we still have opportunities to grow. Where did this growth come from? Again, 6.2% came from existing retailers where we increased the penetration rate, but 6% came from new retail wins and I want to share some examples with you.

The largest one was the Coop in UK. Then we were able to win three countries of a well-known German based hard discounter, starts with an A. Then REWE Dortmund which was one subsidiary of REWE which used to work with a competitor and we were able to convince them to also use IFCO now. Then just recently signed, but already to some extent in the numbers last year was Intermarché, the last big retailer of France which we didn't have as customer yet. In terms of share of volume growth by country, last year UK was leading the pace due to the addition of the Coop, followed by France, German, Spain and then the other countries contributed with 2.5%. So overall, great year in Europe.

This leads to me to South America. We actually had very good business in South America with three countries and we were recently able to acquire a new business with Rentapack in Chile, which we acquired in May 2015 and this almost doubled our business in Latin America. We are now serving four countries, we support more than 25 retail partners, we support more than 950 growers, our team has 434 employees; we run 19 service centres and operate a pool of seven million RPCs and generate $42 million of revenue in this country. So overall, we are quite happy with Latin America and we look into further expansion. We currently have two countries on the radar screen, one being Colombia and the other one is Peru and we are considering either organic growth opportunities or targeted mergers and acquisitions.

The next region is Asia. We have IFCO Japan, a very well established business which was founded in 1995 as a joint venture. IFCO used to have 33%, so we didn't have a lot of influence in this business, but we were able to take over full control in August 2015. We now have a quite nice subsidiary in the first country of Asia, in Japan. We support more than 40 retail partners and more than 800 growers. We have a small and very experienced team of 37 people for outsource service centres and we run a pool of nine million RPCs and generate revenues of roughly $25 million.

We will continue our journey into Asia. We are continuing pilots and research in other Asian markets and the entry will be credible and it will depend on the maturity of these markets. We will only invest in these markets if we really can build up a sustainable and profitable business. One country that we look specifically to and where we are currently running a number of pilots is China and we think in China RPCs have considerable potential to tackle food losses. Currently food losses account for more than $32 billion per annum.

Now I will not talk about North America, the last region. I'll leave that to Dan Walsh and he will do a deep dive of what we're doing in North America. So let me now talk a little bit about retail trends which we see across the board.

The first trend which we see is omnichannel. All our retail partners around the world re working with click-and-collect and home delivery models, se see dark stores, there are mini distribution centres coming up. The impact of that is floor space and process efficiency is critical. The supply chain gets more complicated and I think this drives the demand for standardised packaging and there's an opportunity for RPCs.

Also linked to omnichannels is the trend to smaller urban stores. What you find is that all retailers are investing in small store layouts with localised product mix. Consumers typically expect a broad assortment, regardless of the size of the store. There's limited space and there's an aim for freshness which requires more frequent deliveries. We see pack sizes shrinking and again this has a positive impact because it opens an opportunity for modular, standardised packaging, which is necessary to optimise space and supply chain operations. I should say that we feel very well prepared for this new market trend because in many countries, specifically in southern Europe, small stores have been around forever. So we are quite used to supporting retailers who operate small stores and we have small packaging solutions for that.

The next trend is one which we already had many discussions with you. It's the trend for differentiated point of sale merchandising. What we see is that retailers want to utilise the advantages of market standards for packaging and they are committed to them. But at the same time, they want to differentiate their display from competitors and they want to create an individual look for their stores.

Next trend is the trend for global fresh produce sourcing. Consumers request year round availability of all fresh produce categories and this leads to the fact that retailers increasingly are sourcing globally for counter-season demand. Western retailers competing for suppliers, retailers from emerging markets and we really see an increasing trend to southern hemisphere sourcing and supply. Again, we are very well established because with our global footprint we have a unique possibility to support this new trend.

The next trend is food safety. This is obviously critical for the wellbeing of people and sustainability of the supply chain. Clearly the US is driving the direction globally, but we expect stricter regulations in all major markets and we are preparing for this.

Last but not least, there's a lot of discussion going on, on food waste. There's an increasing focus due to mounting impacts. Retailers feel the pressure to reduce loss in the supply chain and they're looking for ways to quantify improvement and RPCs clearly can help to reduce food waste.

Now what is our response to these market trends and how do we help our customers by providing solutions to tackle with these new trends? We identified five key topics which matter most to our customers. The first one is differentiated point of sale merchandising which currently gets a lot of attention. The second one is support for southern hemisphere sourcing. The third one, new RPC products and services, fourth is food safety and the fifth one is measuring cost savings, environmental impact and food waste reductions. So let me talk to all these five areas.

First of all, the emerging demand for customised RPCs presents new challenges, but I should say also new opportunities. I think you are all aware about the situation. There is increased competition for fresh produce sales and this drives some retailers to seek alternative RPC designs to differentiate their display. The wood look RPC is currently generating the most interest and this is the case here in North America, but to some extent also in Europe. What's the challenge? Obviously multiple pools increase costs for producers, retailers and poolers. If you ask me what my desire would be of cost, I would love to have one pool which could serve the world, but we always took a very customer-centric approach. We listened to the requirements of our customers and we respond with them by developing solutions. That's the approach which we will take here and I think it's not only a threat, it's also an opportunity because it may lead to the fact that some retailers actually mandate the usage of RPCs because they want to have a uniform display and this will lead to higher RPC penetration, so that's good.

So what's the solution of IFCO? First of all, we will offer custom pools when profitable growth can be achieved. So we are absolutely open, we will not walk away from a single customer as long as we can create a profitable, sustainable business. In parallel, we continue to develop merchandising solutions for existing pools because we also want to come up with solutions which help to customise a standard RPC. We are not that much concerned about this trend because we have a lot of experience in simultaneously operating various pools in an efficient and cost-effective way. To pick an example, in Europe we're currently running five pools in parallel and we're doing this efficiently and economically. So there's no problem to do it, again would we have a choice would we do it? Probably not. If we have to do to stay in business, we will do it.

I'll give you two examples for customised pools which we are introducing for select partners. The first one is REWE. In Europe we so far only had green pools and REWE approached us and asked for a black pool. We agreed with them that they will get a black version of our latest generation lift-lock RPC. We signed a long-term agreement with them and we agreed a doable production schedule and we have started the implementation of this new pool and we are half way through. The feedback is really outstanding, customers love it, the retailer loves it and their perception is that the black pool is the best solution you can find on the market because it has this upscale look and consumers really have the perception that these are high-class products with highest possible quality.

Then the other example where will we introduce a custom pool for a select partner is the woodgrain RPC for Walmart. We believe that this leads to stronger retail efficacy in North America and Walmart offers the largest potential volume in the world, so we will definitely come up and provide a solution and be part of Walmart's desire to implement a wood look RPC.

Coming back to what we do in parallel to customise standard RPCs, you see some examples which we are offering the first one is an example to change the look of the shelves, so we have shelf strips which gives the shelves a more natural wooden look without changing the RPC. The next two examples are clips and cards. These allow growers to market their brands in an RPC. The next ones are wrap arounds and racks. So the wrap arounds are really very successful, specifically for sales campaigns for promotions. In the middle section you see the fresh frame solution, so it's either wooden or basket frames and you just slide the RPC into this frame and you have a true wooden look. So we are experimenting with this with some customers.

The last one is a product innovation which we just developed and we're just patenting currently, we call it promo plate. It is a very thin plastic plate which you can customise with any design you want and you can simply click it to the side wall of an RPC and by this, create again a custom look. I personally love this idea because it allows change to the look of the RPC for seasonal reasons or if you want to have a new look because clearly every retailer wants to be different. So we have solutions for this requirement, we're taking it very seriously and we will not walk away from any customer, but work with them to give them the solutions they need.

The next topic, which is very important for our retail customers, is the southern hemisphere fresh produce sourcing. I'll share some examples with you. We're doing pears and apples from Argentina to Europe; we're doing pineapples from Costa Rica to the US and to Europe. We are doing grapes from Chile to the US; we're doing bananas from Central America to Europe and we're doing even apples and kiwis from New Zealand to Europe. All these are examples where the retailers really benefit from our global network because we have organisations in these countries and we can easily support this business. I think this is a unique situation which no other RPC pooler has.

The third topic which is important for our customers is new product innovations and I'll show you here four new applications which we're currently marketing. We talked in previous IMBs about bananas; the banana crate is now in use in the UK, in Germany and in France. We also have a meat crate which is in use in most of Europe and also in the US. We have an egg crate which is in use in Spain and the US and in Germany. The latest edition is actually for bread, so a large hard discounter in Austria has decided to use our crates to ship the dough to the stores where they bake the bread in bakery shops and there's this huge volume and we expect that we can roll out this application also in other countries. These are just some examples where you see how the RPCs are used.

The next topic was food safety. We take this very seriously and our customers take it very seriously. All retailers are really concerned that any product recall would really damage their business. Based on this, we have implemented strict global standards. These standards start with standard operating procedures. They continue with standardisation of machines, so we're using the same machines from two suppliers around the globe and we have one detergent standard for the world. So we really work with the same sanitation processes everywhere in the world and I think again this is unique. We call this the IFCO SmartCycle RPC cleaning process.

We also did a tender with all leading detergent and disinfectant companies around the globe. We partnered up in the end with Diversey, a US based company and Diversey has provided us a disinfectant guarantee which protects us again any hazard which is out there. Beside this, we're taking an industry leadership role here because we also think it's not good enough that only IFCO provides clean and safe RPCs. We also want to make sure that our competitors play by the rules, because if any RPC ever would be involved in a food safety scandal, it could also fall back to us, so we're really sharing best practises here with our competitors and trying to establish standards. We're working with a reusable packaging association and share best practice and we also developed dissolvable labels.

Last but not least, we are continuously improving our processes and our reporting and we are just in the moment implementing in parallel, in Europe and the US, a completely new system. We will continuously monitor all machine parameters of our wash machines, that is, pump pressure, that is, detergent concentration, that is, water temperature, that is, contact time and line speed. If one of the parameters is below or above a certain threshold, we either send out an alarm or the machine will stop. By this, we really make sure that everywhere in the world our wash process is absolutely monitored and safe.

In addition to that, we label every pallet, with RPCs, with a quality label and due to this quality label, we can trace back to which customer we have sent an RPC from a certain shift and vice versa, we can trace back if there's anything wrong with an RPC, where this RPC came from and under what conditions it was sanitised. So I think we again really have industry leadership here.

Now this brings me to the end of my presentation. What are the focus areas for value creation? Key drivers of IFCO's financial performance are an ongoing penetration and scale efficiencies in Europe. We think we still can grow a lot in Europe, not only with existing partners, but we also can convince retailers who today work with our competitors, or with corrugated. We're really working on a higher RPC penetration with existing accounts. We're working on retailer and segment diversification. We clearly want to improve scale and Returns in North America and Dan will share with you what we're doing there. We're aiming for control expansion of South American and Asian businesses and clearly we want to leverage acquired intangibles to get to the return on investment, capital investment, which we're aiming for.

With this, I'm at the end of my presentation and I'm happy to answer any questions you may have.

Unidentified Participant: Hi Wolfgang.

Wolfgang Orgeldinger: Hi.

Unidentified Participant: Can you just touch on the logistics reimbursement fee in Europe and how that's playing a part in competition amongst you and the other operator?

Wolfgang Orgeldinger: It plays a role in Europe, but we really pay this logistic reimbursement for the services retailers provide to us and for the efficiency they can give us. So it is a part of the competitive environment in Europe, but I think we are in very well control of this element.

Unidentified Participant: Just the growth in Europe, as you touched on, has been very strong and a market that's perceived to be rather highly penetrated. How do you think we should think about that going forward? Have there been issues in the last couple of years that have inflated that growth or do you think it's actually sustainable?

Wolfgang Orgeldinger: I think that growth can continue because we still have, in many accounts, a comparably low penetration rate. So that's one factor. The other factor is that even the highest penetrating accounts; we still have those because it happens that some of our best customers are also the most successful customers. I can't say RPC is the sole reason for that, but it is true. For example, our largest customer in the UK is still gaining market share and we are growing with them, so that's the second source of growth in Europe. The third one is diversification, so we're adding new applications such as meat, eggs; we are working on a fish crate. The fourth one is again geographic expansion. We are further expanding into Eastern Europe up to Russia, so we're currently taking a look whether Russia is a market we could go into. So there's still a lot of growth potential for the upcoming years.

Unidentified Participant: Hi Wolfgang. When you're shipping some of your products internationally from the southern hemisphere, how do you keep control of your assets and have you seen an increase in loss rates? How does that work?

Wolfgang Orgeldinger: That's a very good question. In most cases where we work with southern hemisphere customers, we actually apply a deposit, so the customer pays for the asset and he only gets his money back once the asset arrives at the retailers. So we are very well protected. In parallel, we have what we call our web clearing system where we also follow the flow of the RPCs via account balances. So we have not seen any losses. It works fairly well.

Unidentified Participant: Wolfgang, if I can ask regarding how you see ultimately RPCs being used within retailers, is it as part of their merchandising, or does it fundamentally only need to provide a role as far as the supply chain savings that retailers can drive through that lower waste?

Wolfgang Orgeldinger: Actually I see both areas as important areas. I think the supply chain efficiency objective is true for all retailers and we will see that raising because the higher the standardisation on RPCs, the greater the benefit for the retailers and retailers more and more experience that. In addition to that, a number of retailers also use RPCs for merchandising purposes. That's not all retailers, to be very clear. To take an example, Kroger in North America does not want to use RPCs for display purposes, they are convinced that there's better ways. But other retailers do; most of the European retailers actually also use it primarily to create a uniform and very clean look, which customers perceive as high quality. Lately, customer like Walmart actually really came with a desire to change the display and they are now introducing RPCs for the first time primarily for this reason. So it's a combination of all factors.

Unidentified Participant: But if I take Peter's point on replenishment costs of labour, is it fundamentally the key benefit for an RPC that it can slot in to become a merchandising thing?

Wolfgang Orgeldinger: Absolutely. I think along the supply chain RPCs have numerous advantages. One is clearly they work much better in automated environment, they protect the product better, they are better for picking purposes and the retailers save a lot of money in the shipment process from the DC to the store because you have a model of packaging solution which you can easily stack. So that's where really the value is. But then many retailers also see a lot of value at store by using the one touch approach and using the RPC just to put it into the shelf and use it for display purposes. So I think if you use it from the grower to the display, you have the highest savings. But even if you don't do that, you have enough savings that the RPC's superior.

Unidentified Participant: On to the wood look crates that's now picked up by Walmart, or we hear it's been picked up by Walmart as well as Carrefour in Italy, have you had any other indications from other retailers that that's the way that they want to start pushing the look of RPCs?

Wolfgang Orgeldinger: Yes, we had one or two retailers in Europe who are looking into that and we are in discussions with them.

Unidentified Participant: But too early to tell us whether or not you see that as a general trend away from that industrial look?

Wolfgang Orgeldinger: No, I don't see that as a general trend. I think it is a trend which is selected by certain retailers who really want to change things. But again, the wooden look RPC is probably not the solution for everyone. Take the example of REWE; they went to a black RPC and they love it. Interestingly enough, we now have a lot of requests from other retailers in Europe who would like to go to black RPC. It's like in fashion; everyone has a different opinion about the look. There's customers who love the wood look RPC, there's customers who say, well it's a fake wooden look, I don't want to have this in my store, so I think there's numerous opinions about this. I clearly don't see a trend that this will be the future RPC. It will be the RPC for certain retailers.

Unidentified Participant: Right, thank you. Finally, food safety, your wash facilities and the rates that they achieve, do you also wash the pallets? Do you have to wash the pallets?

Wolfgang Orgeldinger: We wash some pallets. We have a very, very small pallet business, in most cases really linked to our fresh produce business. It's very close loop pools. From retailers and I couldn't even give you the numbers, I think it's in the range of less than a million issues a year and we wash those pallets, yes, we do.

Unidentified Participant: Wolfgang, Tom always confidently signs you up to 10% plus sales growth every year, can we hear it from you?

Wolfgang Orgeldinger: Yes and obviously we achieved it, so I would prefer if he would give me 9% and I could overachieve, but I'm struggling to convince him on that.

Unidentified Participant: So is it still achievable?

Wolfgang Orgeldinger: Yes, as you see, we achieved 12%. We're still aiming for double-digit growth in the next year. It is still achievable and yes, we are confident that we can growth this business at a higher pace, yes.

Unidentified Participant: You did some ROCI improvement in FY15, is that mainly scale and amortising intangibles, is that how we should think of that?

Wolfgang Orgeldinger: Yes, that's a combination of both. It is scale; it is higher efficiencies, right? It has also to do with the intangibles have a lower impact compared to the overall business and to be totally open and honest, I think we also disclosed this, we had some one time effects last year which we didn't have this year. This also plays a role.

Unidentified Participant: Thank you.

Wolfgang Orgeldinger: All right, so if there are no questions, I'd like to introduce you to Dan Walsh who runs our North American business. So Dan, the stage is yours.

Dan Walsh: I come from a land down under; I bet no one saw that coming. Look it's great to be here. My name's Dan Walsh, I'm President of the IFCO business in North America and this is my first investment market briefing. I'm excited to be here today to talk to you all about IFCO and what we're doing in North America. It's also great to hear so many Australian accents and I do confess to finding it more comforting that I should, perhaps, to be in a room where the majority of people understanding the game of cricket and I'll look forward to talking that through with some of you tonight and you can give me some details about what's going wrong with our team down south, which has been catastrophic, I might add, since I left.

But first of all, let's get on to IFCO North America. I mean what I want to do today is take you through some of the things that we're doing, how we assess the success of our business or otherwise and the metrics that we look at. I'll talk a little bit about our strategy and some of the things that we're changing and adjusting as we move forward to really trigger the next phase of growth for our company here in North America.

So first of all, I want to look at four key metrics that we have here in NA. What they are, are they're a way we use to assess the penetration of RPCs in the retail supply chain. The first one is the number of producer locations that we have that are taking RPCs and shipping them through the supply chain. The next one is the number of recollections and by recollections I mean the number of RPCs that we're actually taking back from retail locations in North America. The next one is the number of retail DCs that are accepting RPCs into their supply chain and the final one is the number of retailers that have embraced the program and are requiring that commodities be shipped to them in RPCs.

As you can see, for all of these metrics we've had good strong growth. You can see in some cases it's been more pronounced than others, but uniformly, we're moving forward confidently in each of those areas and the signs are good.

So in terms of what that's delivered, what we have here is a good business of scale. We've built a business that's around $200 million of revenue that has consistently grown over the period. If you look on the left hand side, what you're seeing is the sales revenue and then the black chart obviously is the number of crates that are required to support the business. As I say, good strong growth; last year in particular we grew 10.2%, 2015 on 2014.

On the right hand side of the chart as you're looking at it, you'll see our network and what's critical as we go forward is that we flex our infrastructure on the back of that growth in a way that brings benefit not only to our customers, but also to a business as a whole. You can see that we have a combination of service centres or wash centres where we condition our RPCs, reconfigure the loads and reissue, but also we have a number of third party manufacturing locations which are here in the market to support us as we grow. We have two in North America, one in Tijuana in Mexico and with the service centres, as we grow and our business develops, we need to supplement that so that we can capture the efficiencies moving forward.

The latest addition was Fresno in California, as you can see, primarily to service the Central Valley. But as we develop further, particularly in the Canadian market where we had excellent growth last year with Loblaws and also with the addition of Walmart Canada, that's a market that we'll be looking at closely in terms of establishing a washing presence as well to make sure that we capture the benefit of that scale as we secure the growth.

The good news is that there's plenty of growth left. So what you're seeing here is how we think about the market and the key take away here is that the opportunity is big and that the market is large. So if you read from left to right, what we're trying to do here is take you on a journey about the total trips and then strip it down to what we see as being an appropriate target. Again, the message, the key take away is that it's big.

But when we talk about trips, what we mean are movements of commodities in RPCs into retailers and we start off by saying, what's the total opportunity? If you look at all the US and Canadian retailers, you take the commodities, weight them out and if they all ship in RPCs, what would it be. Then you make the necessary adjustments because clearly obviously there are some retailers where the current offer is less than compelling and particularly if you think about the big box retailers, for example. That's something that is not really on the agenda at the moment. They tend to prefer to sell of the pallet, they use the corrugate obviously for moving the product back out to the customer and that would be an issue for us in terms of it being sustainable and bringing the value that they seek.

Also there are some commodities which, at the moment in North America, are not readily being considered for application in RPCs. So there are some items of produce, like take large watermelons, for example, where it may not be immediately compelling in terms of a value proposition. So we steer clear of that and reduce the target as such.

Then we think about what are the resources that we have, what are the capabilities that we have and what can we realistically go after. We come to a number of around 1.2 billion trips, which you've seen before and is consistent with what's been presented. Again, I think the key take away is that we have grown; we're well configured and well developed to support that growth. We've delivered it successfully but we have much more growth available to us as we move into the next phase of the development of IFCO RPC in North America.

The other great thing about where we are at the moment is we're perfectly positioned to execute against that, so we have first-mover status which has proved a critical advantage for us in terms of the way we've developed in comparison to our pooling competitors. We also, as I've said a number of times, have the most extensive network to really support that growth and facilitate the next phase of our development. When we think about our competition and we think about the market, we think about the other poolers, but we also think about corrugate. What's obvious here from the chart that you can see is that there's abundant opportunity for us to get into that market and to continue to expand the offering. We have an enviable market position as we shape up to go after that.

The fact of the matter is, though, that there are a number of things that we need to think about to make sure that we unlock the value of RPCs and start to access the potential. We try to tackle them in a disciplined manner here in North America and we've grouped them into three for the purposes of the briefing today.

The first one is about aligning the market position and for us it all starts and ends at the value proposition. What's critical for us is that we understand our value proposition, that we can enunciate its specifics and that we communicate it effectively to the market. John Thelan talked this morning about simplicity. That's a theme that we've taken to heart and I'll take you through some stuff that we've done here so that you can see we're trying to organise ourselves in a way that's crisp and clear and allows for a surgical and clinical delivery of the value proposition to the market in a way that resonates.

We also want to keep growing. It's critical that whilst we're doing these things that we don't just take a break and pause and get ourselves perfectly positioned and then have a go. We understand that we need to keep the momentum going here in North America and that's why the results last year were quite pleasing from that perspective. We want to grow in a certain way, though. We have a high level of customer intimacy in IFCO North America and we want to continue that, both on the retailer side and the grower side. Wolfgang's already talked about some of the themes that we're looking at globally and we're aligned underneath those when we start to think about things like merchandising, differentiation and response to retailer consolidation.

Clearly we understand that we need to drive efficiencies in North America. I mean that's a common theme and that's something that's been put forward. We know what we need to do there, we will continue to leverage our volume to make sure that we drive the efficiencies in the pool that are needed to improve the profitability and we'll also make sure that we're disciplined in our approach to new business from a pricing perspective and that we extract fair value from the market for the service that we offer.

So I want to take you through a few of these things, first of all and the initial one, as I said, for us is the value proposition. On this slide I want to really make three points. The first is we know what our value proposition is and we can enunciate it. The second is that we think about value differently for our retailers and our growers. The third thing is that inside each of those categories, there are different levels of value that are required to be enunciated. So for example, in retailers, you may be talking at the executive level to someone that has a whole of supply chain view and can see the benefits, even if it may be more expensive in some areas compared to others but there's an overall benefit, that's fine. But then you also need to understand how the buyer assesses value when they're operating in a DC where they're not allowed to carry a lot of inventory, they have to make fast decisions; they need to be able to see the benefits that they're going to get as well.

We also don't want to leave the growers out of the equation. We understand fully, all of us understand, that the retailers are critical in terms of pulling demand forward, but we think it's crucial for us that we enunciate and take the time to enunciate the value that we bring to the growers. The growers in North America are strong; a number of them are well positioned and are able to resist initiatives of change if they don't see that and they need to be respected. Obviously that's something that we've taken to heart and we've been able to enunciate that successfully and develop really strong partnerships with a number of our growers to the point where they're helping us convert retailers onto the RPC program and to make them customers of IFCO.

Thinking about how we take that value to market, again the theme of simplicity is something that we think is critical. Frankly, there was a period of time where the way we faced up to the customer was quite convoluted. The take away here is twofold. The first one is that we have a very simple structure. We have a grower sales team and a retail sales team, key accounts, regional accounts, new business. The second take away is that we've added a new function here to support the delivery of the value proposition in the market and that is commodity management.

There are two factors to commodity management. One is really deep product expertise, knowledge of produce, understanding of the benefits of RPCs and a capability to talk about those in language that resonates with the customer and that is real. The second is audit and compliance and that's making sure that where we have secured conversions, that the product is actually moving in RPCs, that the compliance is being checked and assessed regularly and where we have opportunities to go back to our growers and work with them, if they're perhaps not shipping in RPCs or indeed with the retailers, then we can feed that into the commercial team and take that action.

It's very important to us that we extract the full value on the back of the conversions and that we execute them in a way that is controlled and disciplined and consistent so that we can back up the execution component of our value proposition in a way that resonates in the market. So I do want to talk a little bit more about commodity management, as it's new, and it's a critical part of our strategy. What you see on the left hand side here is what we call the commodity management cycle, and I'll take you through a couple of slides.

The first one is a case of actually getting ready to go to the market, and the second one is how we actually deliver it out there. So the first thing that we need to do is understand what's our strategy. And the strategy that we have here is focusing on our top five retailers and growing through the lane. We feel that we have additional penetration opportunities in the retail - in the top five customers that we have. We have specific opportunities where in certain cases, you'll have a commodity fully converted at one retailer but only partially converted at others.

That's something where I think if we organise ourselves properly we should be able to have the discussion and convince them to do that, and we've managed to do that successfully. The other thing is thinking about year round business. The nature of produce is that it's seasonal and that means that at times you can carry surplus inventory. So if we're able to utilise surplus inventory, contra seasonable business, that can be great for us, and we've had some real successes in that. Most notably with using the 6413s for the grape business out at Chile back up in to North America.

What that gives you then is an overview and you need to then take an assessment of where you are against that, how effectively are you executing. So you come up with an assessment on the baseline, that gives you a number of areas of opportunity. Where you can say look these are the chances that we have, these are the gaps that we have in the offer that we're taking out to the market. These are the things that the commercial team can get organised around and go and get after, to bring the value back in. So if you follow that first part of the cycle, which is what we've done. You end up with a map that says for these customers, these are the commodities that are the opportunity and these are why they're of benefit to us, and this is how we can go after it.

We then need to think about how we enunciate the value proposition and for us critically it's about quantification. It's not just enough to go in with words, and I'll talk a little bit more about how we do that. But we're really trying to go in and say by using RPCs you will save money in the supply chain. You will optimise the delivery of the product, you will secure the benefits that are associated with RPCs in terms of material handling, and generally the supply chain will operate much more effectively.

The commodity management team support our commercial teams on both sides of the river, so they work with the retailers and also with the growers in making sure that we deliver that out effectively to the market. Then once we get the conversions, we now have a team in place that regularly audits the DCs that we have in North America, we audit 52 each month. We make an assessment and secure the data about what's shipping in RPCs and what isn't. Communicate that out to the team on the back of a general process and then go after that. That's very important to us. It's delivered some great results for us in 2015.

In tomatoes for example, which is 20% of our business, we grew 19% year-on-year and a lot of that was down to improving conversion at some of our major - compliance I'm sorry at some of our major retail customers. That is getting growers to ship in RPCs, where the products had already been approved for shipment at the retailer.

When we talk about delivering the value, again what we've said is it's necessary for us to quantify this. What's not appropriate is to just go in with a bunch of slides and words. What we're trying to do is actually put some hard numbers around it.

So on the back of an initiative that was developed in Europe with the Fraunhofer Institute, we transplanted that learning to the United States and partnered with Cal Poly up at San Luis Obispo here in California. We got them, we commissioned them to do an assessment of the relative benefits of RPCs against corrugate at various points in the supply chain, inside retailers. They looked in three areas, the first one was distribution, the distribution centre, the next one obviously was the store, and the last one and final one was the reverse logistics centre, the process of bringing them back through the supply chain and returning them to us.

As you can see, without going through the specifics, in the vast majority of cases we were materially better than corrugate. The advantage of that is that we're able to use then average retail costing, present that to the customer and say look, based on the numbers that we have this is what we think the value is available to you, from the use of RPCs. Now even if they then dispute those numbers, if they don't want to use it, they can work independently with our partners from Cal Poly, put their own numbers in, and determine if there's value there or otherwise. So it's a way of putting a real and sustained quantification around that value proposition and compelling the retailers to actually make the decision to shift over. Or to expand the penetration of RPCs as well.

So far we've taken it to 11 retailers in North America, and the results have been good. We've grown at nine of them so far on the back of it with additional conversions. This will be a critical tool for us as we go to the next phase of our growth here in this key market. Wolfgang talked about merchandising differentiation, and I know that this is a topic that people are keen to hear about. The case study that I want to talk about here, is the Walmart Wood Grain RPC. You know, it's fair to say that we're excited about this opportunity. We understand that it's perhaps suboptimal in the sense that, as Wolfgang said we would like one pool for all the world that operated in all the market.

But this is a real opportunity for Walmart to trigger a second wave of advocacy here in North America, and we grew very, very strongly on the back of the first one. Our commitment in terms of this process is, that we will assess it critically, we will develop a quality product that will perform in the supply chain, and we will make sure that when we do this, if we do this in a way that makes sense. We will do it in a way that's sustainable, that we will flex our infrastructure to its full capacity, and we will prove to Walmart our capacity which we believe is unique. To genuinely serve their demand in the market of this scale, on a universal basis, and that's a critical thing.

The fact that we have this expertise in running differentiated pools, is also something that's been recognised by the customer, and the dialogue that we've had with Walmart around this has been very, very pleasing. Because we've had the opportunity to show them different elements to our capability, it's been very well received and we're moving closer to completion on this, and we're confident that it will be a good initiative. Not only for Walmart but for the supply chain and for IFCO and Brambles.

Finally I want to talk about, or not finally, but I also want to talk about Cajas Agricolas. We have Roberto with us here today, and this is an example of how we partner to grow in new markets and to expand our penetration. So in the case of Mexico for example, we had a specific opportunity, a number of the commodities, the produce commodities that are actually sold in North America. The production of those commodities is shifted out of North America and in to Mexico. So more of the produce that's being sold here is coming over the border, and you can see there that it's a massive market with 650 million annual issues in terms of its potential.

A lot of the customers however are small to medium sized, and it's difficult for a company of our dimensions to serve profitably. So by partnering with Roberto and Cajas Agricolas, we've been able to really grow the business and access a vast array of customers that may not have been able to be reached, with our conventional model. That's delivered very, very strong growth for us, in the order of 13 million issues last year from 33 million in that market. As I said we grew 15% from 14% to 15%, so we're satisfied with the level of development there, that's broadly in line with what we're seeing in the market in general. We now have Cajas Agricolas partnering with us, to supply 135 locations. So it's been a good example of collaboration and partnership, that has triggered real and meaningful growth in a critical area for produce, here in North America.

The last slide is looking at the, before we get to the conclusion, is looking at Rancho tomorrow, we're delighted that we're going to be able to host you. You'll be able to see a great facility tomorrow, it's in the order of 83 metres - sorry, washed is 83 million RPCs, 200,000 square feet and it's a fantastic location. It's really one of our most productive and critical facilities, 60% of our growers are actually serviced, are part of the south west here in

California. This is really the service centre that serves that vast bulk of them, except for the Central Valley, which moves up towards Fresno, and we've only recently added that location. So that will be a great exercise and we're looking forward to hosting you there tomorrow.

So in terms of what we need to do to take things forward and to improve the value that IFCO RPC brings to the Brambles portfolio in North America. We really need to concentrate on effective delivery of our value proposition. We think we're well configured to do that. We want to grow our business to improving the penetration of RPCs with our existing accounts. We need to continue the retailer market and segment diversification and we've done a nice job of that, and I think that that's something that we will accelerate confidently in to the coming years.

We recognise that we need to be more disciplined on price, or have discipline around price, and we are working very hard to do that here in North America, and the results so far, both at the latter end of FY15 and heading in to FY16 have been encouraging, and that's something that we'll continue. Really we have this unique advantage in terms of our market position and the infrastructure that we have built up to support it. Where we have this network, which is uniquely configured to support the growth of the business, and the growth of customers business. We're focused on extracting the efficiencies through that network as we grow the business with scale.

So at that point, I'll pause and take questions.

Anthony Moulder: (Citigroup, Analyst) Good afternoon, Anthony Moulder from Citigroup. Can you talk to exactly what the average saving is that you think on a grower, using an RPC versus a corrugate box?

Dan Walsh: Well that's a tough one Anthony because it depends by commodity. So for some commodities, say for example wet veg, where the standard corrugate box is a wax corrugate box, the saving is quite pronounced. For other commodities, if you where you have perhaps smaller sizes, say for example tomatoes or maybe even apples, it can be less significant, even though it is there. It also depends on the amount of graphics that are evident on the corrugate as well. So if they're heavily marketed, obviously they're more expensive, if they're more basic, then they're not as expensive. So it can range.

Anthony Moulder: (Citigroup, Analyst) But if you go to a customer, to a grower and you say we can save you money on this, on per trip basis using RPC, we're going to save you on reduced waste, which ultimately growers pay for the retailers don't. What fundamentally is the pushback, because I would have thought that those kind of value propositions for the grower were fairly strong?

Dan Walsh: Yes I mean look there's a couple of points to make there. The first one is there is a strong value proposition that's right, and particularly around the reduced rejections right, which is the critical cost driver for the growers. But sometimes the growers are quite attached to their brands, and they like the merchandising capability that they have through corrugate. That's something that they hang on to, in our view, sometimes irrationally, to a point where it doesn't really make sense. But it can be seen by some growers on occasion as something that dilutes their brand, in a highly competitive space. So we need to work through that, and that's why some of the initiatives that we've been talked about with the promo plates et cetera, where we run in to that opposition, will be very, very important.

Anthony Moulder: (Citigroup, Analyst) Lastly, can you talk to availability of the crates, I think that was one of the issues that growers had some issues on conversation, can you talk to how that's been improved?

Dan Walsh: Yes look, I think that's a fair challenge. I think what's critical for us is that we manage that balance effectively, between having enough crates where we can supply perfectly without any issues at all, but also having the appropriate CapEx discipline. You know what's critical for us is that we're cycling the assets effectively and that our network is configured in a way that lets us recover them quickly, condition them quickly and get them out. The business as you know, the produce business is highly seasonal, and in particular in the summer demand can be tight. But I would say that in the last summer just gone, we had a much better performance than we've had in the past. One of the things that we've done, which has been very effective, is work much more closely with the retailer.

So for example when you get a good graft around the data associated with the grower behaviour. You can see sometimes that they're ordering in advance of the contracted lead-time. So they're compressing those lead times, which makes it difficult to respond. We can talk to the growers a lot about that but they sometimes can be reluctant to change. However if the retailer understands that that's a factor that's impacting on their capability to receive RPCs. They can go to work on that and help us out. In the example of Loblaws in Canada for example, they did that and we had a fantastic summer with them. So I think our performance is improving there. You know we're partnering more effectively on the retail side, we're looking in advance, investing ahead of the curve and making sure that we're managing things in an appropriate fashion. While balancing CapEx and the need to service our customers.

Andre Fromyhr: (CBA, Analyst) Andre from CBA. Can you talk a bit about the economics of a custom pool, maybe Walmart's a bit unique to the general comments, but are the contracts sufficiently long or is the payback sufficiently short to protect against the risk that they just change their minds and fashion changes?

Dan Walsh: Yes I think that the-we'll only do it in a way that makes sense for us. That's why we're taking our time and working through that appropriately with them. You know the feedback that they've given us, and all the indications are that they are extremely committed to this. Like, for example, they're purchasing new merchandising units for their stores, they're changing the layouts et cetera, they're communicating actively to growers. They've engaged very effectively with us around that initiative. So look, I think our approach will be that we will seek an agreement with Walmart, but we'll enter in to the business with our eyes open. As we see the business grow we'll continue to invest. I think that Walmart being Walmart, has the capacity to develop a pool of vast scale, you know one that makes sense for us. But we'll be watching the take up closely and just making sure that the strategy continues. I see no issues with Walmart rolling of the strategy in the near term.

Unidentified Participant: Dan, if you convince a producer on RPCs and manage to get them off across the line on it. Will they then generally go and get a quote from one of your competitors as well as yourselves?

Dan Walsh: Not always, right, sometimes is the answer to that. I think that if you think about what the value is right, if you're a grower or you're a retailer and you've decided to go for RPCs. Then what you want is, I mean price is obviously one element of it, but you want certainty. You want to understand that you're going to partner up with someone, that has the capability to service you, especially if you're a large grower and you've got multiple locations. Across North America, across multiple growing regions, in a way that's consistent and clear and simple for them to administer. So it's not really of any advantage to a grower, to go out and extract a lower price for the circuit in Texas, when they've also got growing locations in Florida, in Georgia, because they then have to run multiple poolers.

So I think that the thing that differentiates us in the market is our capability to service growers on a national scale. We really are unique in terms of the infrastructure and in terms of the profile, and that's something that's recognised in the industry. So whilst there is a desire on occasion to check us against the market. What you see more than anything else Matt, is growers understand, and particularly growers of scale, that if they're going to partner with anyone on RPCs, they need to be able to partner with someone that can service them consistently and right across the country, and that's us.

Unidentified Participant: Dan quick question, where are you at in terms of the network build out in the states?

Dan Walsh: Well you mean in terms of do we have enough service centres? Yes at the moment we do, but I think as we continue to grow, we try and do two things. Obviously we reconfigure and flex our infrastructure to support the growth. But then we try and think about what's coming. So for example we have been thinking hard about other markets, other locations, Canada being one, because that market is growing very nicely for us in retail, with the retailers we have up there. Both through Loblaws and Walmart Canada, which came on to the program last year.

So at the moment we have a sufficient infrastructure, but we do have the willingness to invest further, if we can generate the demand where that makes it viable. Because it's obviously critical for us to be able to recover, condition and reissue in market that helps the economics. Whilst there's fixed costs associated with the set-up of the service centre, as long as there's the demand there, there's a payoff. So at the moment we're good, but we continue to review and look at it.

Unidentified Participant: Are these unique products that you're rolling out. Are they exclusive to retailers, specific retailers or can they theoretically be used on multiple competitors so to speak?

Dan Walsh: In theory they could be used on multiple competitors. The reality, I mean one of the limiting factors is production capability, it depends how deep you have to get in to it, you know you might not be able to-you can only produce a certain amount, and it depends on demand. But at the moment, no they're not exclusive.

Cameron McDonald: (Deutsche Bank, Analyst) Dan, Cameron McDonald from Deutsche. Just regards to the changing fashion and stuff that you were talking about driving product development. Can you give us as idea of how much you actually spent developing the wood crate, how long it took to develop. Then what's the cycle, do you see that going forward with that product development and that cost. Particularly with some of the other trends that Wolfgang talked about with small store formats, and therefore different fashion tastes if you like, in various locations geographically, which could alter even within the United States itself?

Dan Walsh: Yes look, in terms of the production costs, I'm not going to comment on that one, I don't think we're prepared to go to that level of detail. In terms of the time, I can say that once the idea came back from the retailer, as Wolfgang says we're in the business of saying yes to our retailer customer. So we were down there straight away talking about it. Now I think one of the things that we all need to understand is that sometimes turning an idea in to an RPC can be different. You know, okay it can be a protracted exercise, so you can have a retailer that is heavily focused on merchandising, that says I want something that looks like that.

But then we need to go away and think about, well how will it actually travel through the supply chain, can you wash it effectively, what's the weight light in terms of transport. The great news is we have the expertise to do that. So I guess the point I'm trying to make is it's not just enough to come up with an idea, you need to produce a product that can make it through the supply chain and live on sustainably. Now that's something that we've built a real capability around, as evidenced by our business around the world.

I think broadly from gestation, it depends on the product, but between I don't know, nought to anywhere up to six months or anywhere as short as six weeks, depending on the complexity. And depending on the level of variation they want from what we have that's standard. But because if we have to build new inserts or build new moulds, then obviously that lengthens the time. But if it's something that can be done off an existing production base, just a change of colour with a pan tone or something, then we can do that in faster period.

Paul Butler: (Credit Suisse, Analyst) Hey Dan, Paul Butler here.

Dan Walsh: Sorry mate, blinded by the lights up here.

Paul Butler: Just wonder if you could talk about how you see what your advantages in providing a service, I mean to say Walmart compared to what they could do themselves in house. How you can you know?

Dan Walsh: Yes I think that's a good question. Look, the trend that we see with retailers is they want to do less of stuff that's noncore not more. There was a point in time where Walmart had their own pool, just to pick on Walmart and the result was not good, they got out of it, that was primarily in Mexico. I think that obviously there's a capital investment piece, because it's not just having the pool, but it's maintaining it and conditioning it and getting it out to the growers. So you don't just have a one off investment if you want to run your own pool, you have to continue to give to it over the years. There's less and less of an appetite for that in retailers in our experience, for anything that's not centrally related to merchandising or retailing.

They're actually looking to divest more and more things where they've had an interest, or a foot in the water or a toe in the water about that sort of stuff, and get it out on to the third parties. Which is great news for us, and one of the reasons why we're partnering so effectively with them on multiple platforms, for multiple applications. Not just with the IFCO business but across the Brambles business generally. You know retailers just don't want to get in to the business of running their own pools and you heard John Thelan say that today. We're happy to let them do it, we just don't want to do it, we just want to make sure his terminology was a board, that there's one available when we want it. That's perfect for us because we've got them.

Paul Butler: (Credit Suisse, Analyst) Okay and just one more, when you think about the opportunity to go after growth over the next few years. Do you see the challenge being more on converting retailers or more about getting the growers on board?

Dan Walsh: Look in my view, demand is retail driven, you know you really need to have structured retail demands. So I think what we want to do is convince the retailers of the value of RPCs through the whole supply chain, and we talked about how we're going to do that. But what we don't want to do is leave the growers behind while we're doing that. We certainly do not want to be the company that turns up and says, Kroger's converted mushrooms, how many do you want? We want to partner with our growers, work with them, make them see the value. Put our people in to the packing sheds, where we have that level of expertise, some of these commodity managers we brought on, 20 years in the tomato business, 15 years working in citrus, third generation farming families out of the central valley. I mean we want to be working with the retailers to get them to see the supply chain benefit, but we also want to be partnering with our growers, so they can use the RPCs in a way that benefits them, benefits their products and gives them less rejections and more product on sale.

Paul Butler: (Credit Suisse, Analyst) Okay so you've got 20 retailers now, where would you expect that to be in say another four, five years' time?

Dan Walsh: I mean that's a tough question, certainly beyond 20. I think that we're in active discussions with a number of retailers and look it can take a long time, but then it can come on fast. So sometimes we were working on Walmart Canada for example for a number of years in FY14, we have zero business with them, last year we exited on a run rate of around five million trees. So we're getting decent growth. I think that if you look over time we've added at least one a year, we'd be looking to do that and more as we move forward.

Paul Butler: (Credit Suisse, Analyst) Final one on price, what does price discipline mean?

Dan Walsh: Oh I think what it means is that we need to extract fair value from the market for what we bring. I think that what we can't be in the business of doing is just dropping price to whatever is required. Be it some spurious comparison about with corrugate or someone else or some idea in a growers mind, or anyone's mind about what it should be. It needs to be a considered and data drive process that leads us to a point where it can justify the investment, that's what I mean about that. I think it's critical for us that we do that. Because that's a capability that will go on in to time. I think that the wrong approach is to just take a lax approach. I mean one of the great things about Brambles is we do have good governance, we do have good discipline, Peter talked about that. That's a real thing and that's something that we want to establish deeply in RPC, not just for the next growth cycle, but for the one beyond that and beyond that and beyond that.

Paul Butler: (Credit Suisse, Analyst) So can I ask what kind of price growth you were getting FY15?

Dan Walsh: Look I want give you a number, but I can say that we exited the fourth quarter positive year-on-year.

Paul Butler: (Credit Suisse, Analyst) That's good, thank you.

Unidentified Participant: Sorry this may be a dumb question Dan, but...

Dan Walsh: That's all right.

Unidentified Participant: Just from a retailer perceptive, obviously in Europe you compensate them with the fee. How do you deal with the fact that someone like Walmart must be selling tonnes of corrugate on a recycling basis and how does he get compensated?

Dan Walsh: That's not a dumb question, that's a great question. Look, I mean it was interesting actually, while some retailers might be selling that and getting something for it. What most retailers want, is they don't want to have trips to the bailer. They don't want to have people cutting up corrugate standing around folding up things, they're very sensitive to accusations that they're flooding the supply chain with corrugate at a time when they're under scrutiny for waste, in terms of both produce and their impact on the supply chains.

One of the great benefits of RPCs is that there's less corrugate in the supply chain rather than more. They don't need to have the labour cost to handle it out the back, they don't produce the waste, they don't send the product to landfill. In North America as you know, I mean the sustainability commitment of our retail partners is real and serious. I mean Walmart in particular. That's one of the key reasons why RPCs have been picked up, not only in this market but in most major markets around the world, and are becoming the standard. Okay thank you very much.

James Hall: Thanks Dan, thanks everyone. We'll have a quick coffee break now, a quick leg stretch, and then if- we've made up a little bit of time. If I can ask everyone to try and be back not too long after three, so by five past three, then we'll get on with the container sessions. Thanks.

[Break]

Jason Rabbino: So good afternoon everybody and welcome back. I think I know almost everybody at this point after the years, I'm Jason Rabbino and I lead the containers group for Brambles and also lead strategy for the company overall. So I think Tom picked Danger Zone for me, which I hope was because it was from Top Gun and not because of the name of the song. So we'll see how the next half hour goes and you guys can let me know.

So what I want to do really is just three things with you, and we have a relatively short time to cover this, but we'll take a lot of time for Q&A. First is to give you an update on how the containers group's performed in FY15, what's gone well and where some challenges are. Secondly talk to you about what our strategies are in terms of how we're continuing to grow and evolve the business, and then third talking about why we think that that creates more incremental value as time goes on. So hopefully at the end of the day you'll say I understand the strategy much more clearly, I like what's going on and I understand what the challenges are and how they're trying to address those.

I'll take about 30 minutes to cover that, then I'll ask Drew Merrill to come up and actually talk to you in detail about what's going on in our North America Pallecon IBC business, and the North American automotive business which Drew leads both of.

So let's start off and just a reminder. So the containers group is actually not one business, it's a collection of businesses that serve four distinct supply chains. So the supply chains we serve are aerospace, which is in the lower right hand side there. Automotive which is in the upper left. IBC our intermediate bulk containers and oil and gas which are both in the centre, and then also lean logistics, which has come up earlier today as part of the containers group as well.

Now you see much like Wolfgang talked about, we've got businesses that are in very different stages of their evolution. We have automatic which has been in the Brambles organisation for about 20 years, has great performance, our biggest challenge there is really accelerating the growth on what's been a relatively challenged market, and I'll share you with a bit about why that's been. In IBC and oil and gas, we have two businesses we like very much in terms of their fundamentals and their incremental return on investor capital. Now we put a lot of money in to acquisitions to build up those two businesses, and get economies of scope and scale. So you see if they look below the value creation frontier, as a standalone basis, but if you take out the intangibles and good will, they're actually quite well performing businesses overall.

Now we're very conscious of the fact that we actually have to deliver return on the tangibles. So we don't overlook that fact, and you'll see we actually are making good progress against that. Now the one that does stick out on this chart is the aerospace business, and I think we've talked about that a fair bit over the years. It's a good fundamental business, in terms of it is a pooling model, we've actually created an industry largely from scratch. But aerospace business is one where it requires a lot of capital to build out the business. It takes a long time to convert customers, and at the end of the day the market size is relatively finite. We shared in the past, I think both in Sydney and in Melbourne, we actually have some very clear metrics, both financial and operational for aerospace.

We continue to make progress and on my of those, FY15 was a good year, but it's not where we need it to be, and we continue to look at all of our businesses, particularly ones that are below the line fundamentally. And say what do they look like for us over the long term and how do they fit in our portfolio. So I'll spend most of the time today talking about the three that are above the line, either without good will or with good will in it, and go in more depth on that. Happy to take questions on all the segments at the end.

Now let me talk about our scorecard for FY15 and how the year played out. You see on here - and probably not surprisingly given that this is the most early stage business of our three within Brambles - we have a bit more of a mixed scorecard. So I hope to come back next year and show you one that looks more like Wolfgang's scorecard. But we have a bit more yellow and mix within green. What we see is a couple of things. So in terms of the growth rate, our top line growth was over 30% for the year. So we like that number, what we don't like is the fact that a lot of it was very heavily reliant on acquisitions. So our underlying organic growth, if you look at a containers group level, is 4%.

Now we want to break that apart a little bit for you, because if you look underneath the group level, you see we have our four different supply chains. We had two of those, aerospace and our IBC business, which actually grew at double-digit rates for the year. So really good performance from an organic standpoint, and we've actually had strategies focused on those businesses, which really paid off quite well in FY15. In contrast we had the automotive business, which for a number of reasons that I'll come to, was actually negative growth last year, the most notable factor being obviously the decline in automotive manufacturing in Australia. But also some headwinds in our large

European business, which makes up more than two thirds of automotive today. Then finally oil and gas, which I know you're all interested in and we'll spend more time on as well.

Obviously a pretty difficult year for the industry overall. Relative to the industry and we think we actually had a pretty good year, but on an absolute basis, it was a tough year for oil and gas. Most of that was our CCC business on a like-for-like comparison. So CCC had a down year, which it tends to do as the oil cycle goes up and down. The Ferguson business actually year for year on a pro forma basis, had a growth year, which I'll talk more about towards the end. But obviously we had very high growth expectations and we had some challenges there. So net-net, not where we want to be on organic growth, however you do see very good leverage to the bottom line.

So our underlying profit performance was quite good, obviously with acquisitions, but even ex acquisitions, you see good leverage there. That's resulted in teams being very focused on getting leverage wherever they can, and even in supply chains where the industries are challenged, is finding ways to draw more profit to the bottom line. Now on the cash flow, we had a nice year on cash flow performance as well, now some of that was certainly a contribution of Ferguson, which helped out a fair bit. But all the teams are very focused on delivering cash flow. Now we continue to reinvest in all four supply chains, so we're not getting cash on the sacrifice of growth, but we actually are focused on delivering cash where we can.

Then last but not least, the two bottom ones in terms are employee focus metrics, on our safety metric, the business overall on a year for year basis, like-for-like. We also saw improvement as the pallets team and the IFCO teams did. If you bring in the acquired business, which are really Ferguson and Transpac, which weren't in our prior year numbers, the results were not quite as good. But net-net, the core business, what we say is the like-for-like business, did improve on safety, and we're roughly flat on employee engagement for the year. That's not where we want to be, and we seem to be keeping score today, so I'll say of the three businesses, we are the lowest on that metric.

I hope to have an improved colour to share with you next time around. But suffice to say that we're five points below the high performance norm. So given that we're a collection of a largely acquired businesses over the years. Very different cultures, very different backgrounds. The fact that we're still bumping up against the high performance norm, although not where we want to be, is why we say that's yellow. So we're making some good progress on that early in FY16, and we think we'll see kind of improved results for the year to come.

So net-net the takeaway for you should be, the business is performing well in some aspects, other aspects is definitely challenged. Some of the challenges are a reflection of the diversity you get with the containers group, some good supply chains and some challenge supply chains. So now let's talk a bit about what's happening in the markets. A lot of you have asked me during the breaks or over meals, what's happening from a competition standpoint, what's happening in the market fundamentals. So I thought I'd take a few minutes and walk you through each of the four supply chains, and explain how they're performing from both a market dynamic standpoint, as well as a competitive standpoint.

So let's start off with the IBC business. So in IBC is we see generally a very good market around the world. Pretty stable, IBC is the most like our other businesses, where it tends to go GPD plus or minus a few percentage points. So that's a very stable business around the world, and we like the characteristics of that. Now we've also seen on the customer side, given some of the global macro and economic pressures, customers have seen some cutback in their own CapEx that's available to them. So we've had more customers reaching out and saying, we're a bit more capital constrained, is there a way for CHEP to come in and help us improve our performance there. So we think this is actually a good trend for us, and continue to support that double-digit growth in IBCs.

On the competitive side, the IBC market is largely a market right now, that's in cardboard or corrugate or in drums. So it's less a matter of dynamic competition for us in terms of IBCs or reusable containers, and more a matter of converting people over, from old form factors in to IBCs. It's very fragmented in terms of pooling, we are by far the leader in the space, and we haven't seen any new competitors or really much change in competitive dynamics from other people who do pool today.

Now in the automotive sector, you see very different dynamics around the world. So in our largest potential market, which is North America, right now the automotive industry is doing great. So the equipment manufacturing's, the OEMs, the car producers, are actually going gangbusters. That's great for the industry, ultimately it's great for consumers in some ways. For us I suppose it's a little bit of a challenge, because as we're trying to build an early stage business, they're just focused on maximising output, and they just don't have the time or the bandwidth in many cases. To step back and say well let me think about what I do with my container pool

We've made some really great progress in that industry, Drew's going to share more with you, so we like how we're growing, but it is a matter of getting mindshare of the customer and we think our solutions are starting to gain more and more resonance. In our European business, different story. The market's been actually quite slow for a number of years. We've started to see in the last couple of quarters a bit of an uptick in the European business. But what you see is you see new car sales, and new car registrations taking up, production tends to lag that. So you see what is called the equivalent of dealers inventory, has been coming down the last couple of quarters. The manufacturers are just starting to ramp up production now. We are seeing some flow through benefits for that in our top and bottom line. But we expect to see more benefit from that in Europe in FY16.

The other challenge in a European market, is I think we talked at our last IMB with you, that the Russian market was a key opportunity for growth. Now just for Brambles but the industry overall. What a difference 12 months makes. The Russian market for a lot of reasons, as you're well aware of has really gone very far backwards. Key customers like Ford have gone from three shifts down to one shift, GM has decided to exit the market entirely, Toyota, Volkswagen have all slowed down. We still that think long term Russia's a good market. But some of our growth plans for Russia have actually been put on hold, waiting for the market to come back. Again the Australian market, I think most of the audience here is aware, is obviously a headwind for us. It's about 9% of our business today and that market overall is going towards zero. So we have to work particularly hard in our growing markets to offset that headwind as well.

On the competitive side for automotive, our main competition there, is very much owned pools. Most of this industry is not pooled by anybody, it's actually pooled by the OEMs or the tier suppliers themselves. So for us, much like in IBC it's converting people over from different form factors, in automotive it's converting people over from their own pool to a CHEP solution. Our strategies have changed a bit in the last year, and I'll come to that in a couple of slides. We think that'll help us gain more traction in the short term.

The one competitive set that we have seen in the last few years, has been the 3PLs. The logistics providers for the OEMs. We've seen them investing in the pooling market and trying to get in to the space, saying we've got trucks going in and out of the plants anyway, how do we actually optimise those assets. They've been pretty tough competitors for a couple of years. I will say in FY15, we saw a number of these players start to back off just a little bit. We didn't see them bid on pieces of business we thought they would, and some cases we've seen them actually slow down their performance in deliveries to OEMs.

I wouldn't say it's a change in behaviour per se, but in terms of their aggressive approach to the market, we've seen some scaling back of that in the last year. On the oil and gas side, that's been by far the most challenged and most dynamic market of our four supply chains during the course of the year. When we actually closed the Ferguson deal, which is the majority portion of our business, I believe oil that day was at $92 a barrel, mathematically we're actually at exactly 50% of that today. So we're at $46 today. So you'd have to expect, as I think you're all aware, that's not a great thing for people who service the industry. Our teams in both CCC and Ferguson have worked very hard to try to offset those headwinds.

You'll see on the slide that CapEx last year for the industry was down about 22%. Most of the forecasts say CapEx will be down that much again this year. So really a dramatic scale back year-on-year and we work very hard to actually address that. We think we've done some very good things to do that, but with that kind of headwind in the market everyone who serves the oil and gas sector has battened down the hatches a little bit and tried to make their businesses more efficient and more customer focused. What does that mean on the competitive side?

Well it means that while we have some challenges to work through we see the smaller players under quite a bit more threat. People that have one big customer account or serve just one niche market, a lot of stress on those companies right now and we think that over the next couple of years we'll see a number of those fade away in one form or another which may create opportunity for Brambles. Now sometimes in that kind of environment you see people acting somewhat irrationally, pricing behaviour gets a bit out of control, people are doing anything to maintain market share and I will say we've seen some of that in some regions in some sub-sectors of the industry.

But overall we think that the industry, the offshore container industry, has been relatively rational during the course of this and everyone's worked to cut costs.

We think we've done as good a job or better than others but it has been an interesting time certainly to be in this space and we think that we were going to come out of it in good shape. But we have to really expect that this year and next year will be challenging for our team and how do we work through that is our primary focus right now.

Last but not least is our aerospace business. So from a market standpoint far more customers or potential customers are talking to us today. We are speaking to more than half of the industry out there in terms of other opportunities to work with CHEP and partner with us. That's up from about 20% just three years ago, so a dramatic increase in the number of conversations and people now understand what pooling is for ULDs. That's the good news side.

The bad news side, which is good I guess if you're an airline company but not good for us, is that the fuel prices have come way down and with prices way down it's actually freed up more capital within the airlines. We would argue there are probably some other places they should invest it but the start thinking about well, should we actually invest in renewing our ULD fleet. What it's done is it hasn't taken away opportunities from us, but it's actually slowed down the pace of conversations and the pace of conversion. For an industry where we've told you in the past the sales cycle is one of the longest we see in our business, to extend it out even further does create some challenges for the team.

Now on the competition side, again another industry where you don't see a lot of competition per se in part because we've created the market largely ourselves. So the market is really a mixed of owned pools, CHEP and then our competitor out there which is owned by one of the airlines, so they're not an independent competitor. Most of the industry is still insourced so we see plenty of opportunity to convert it over. At the end of the day it's not a matter of can we grow and can we win, as I said in FY15 we grew at double-digit rates and won a couple of big airlines. The question is what does that achieve in terms of scale over time and what does it do in terms of return on capital. The average asset in this industry is over $1000, you compare that to an RPC or a pallet it's a very different type of economics.

So now let's talk about our supply chain segments and what's happening within them in terms of our strategies. We'll start off with IBCs and we'll go through the order I just covered. So in IBCs we have three fundamental strategies. First is introducing new platforms or going into new vertical markets. Now to be clear we're not trying to extend a broad range of SKUs out there but going into segments where we know we can win and saying we've got a great pooling value proposition and a great network, how do we leverage that in new ways.

The second is we are now very strong in all three primary regions: the Americas, EMEA and Asia Pacific. How do we actually transfer knowledge and expertise from one to the other and in some cases how do we transfer solutions that work in one region to another region as well. That's something which we've done a great job on this year, I'll share a bit and I think Drew will share a bit more, but it shows the leverage and the power of the Brambles network. Not just, by the way, within containers or IBCs but as we leverage other parts of Brambles for talented solutions as well.

Then our third strategy across the entire business is expansion, both geographic expansion and into new countries, but then also expansion into intercontinental and I'll share with you in a minute an example of intercontinental in IBCs. We actually had really focused intercontinental on the automotive segment initially. We've had opportunities come to us through our IBC teams and we're actually starting to win business in that space as well.

So what exactly are we doing in these segments? Let me start off with new verticals and new solutions. So just to give you one example, in Drew's business in North America we have identified as we've done our segmentation that the processed meat market is a very attractive potential market for us. We think there's at least $50 million, maybe up to $100 million in potential opportunity across different parts of the value chain. Most of that moves today in either corrugate or it moves in very heavy work in progress containers. There is no lightweight solution that's durable and meets the needs of the industry. What we've done now is we're working with a container manufacturer we've developed a potential solution for the market that we think can allow us to capture a sizeable share in a relatively short number of years.

Now like with all of our investments what we're doing is number one we're partnering with the manufacturers, so we're actually sharing the risk with them to develop new solutions, but secondly we're doing pilot programs. So before we buy lots of containers and roll them out in the market and hope customers come with us we're actually doing a pilot program in North America with half a dozen of the largest manufacturers representing more than 50% of the industry. Getting feedback, adapting the container, making modifications where necessary and then putting it through our review process, saying it needs to pass hurdles in terms of operating performance and financial result as we work with customers on the business model. Only when it passes those hurdles does it become a standard product in our pooling inventory. So that type of discipline and rigour around introducing new solutions or going after new supply chains is exactly how we have the teams focused.

Now secondly on the people side and leveraging our talent and our expertise. So we've got great people all around the world who've actually developed lots of experience over a decade or more in our different parts of our business. So how do we gain the benefit of that and gain the benefits of our scale? Well, some great examples. Neale Myers, who many of you met at Sydney I guess a year and a half or so ago; Neale actually led our Pallecon business in the Asia Pacific region for many years. The opportunity came up for Neale to move to Europe and so he relocated there in April this year and has taken all the experience with more than a decade in Australia and New Zealand and brought that to the European team. So he's actually changing the mindsets and our behaviours in the entire team by moving a person around the world.

Likewise in both Europe and North America we then have opportunities to move the team in different ways and we brought some expertise in Europe over from the pallets group; so again the leverage of the Brambles organisation. Valerie Noury was one of our sales leaders for pallets in France, has now moved over to the Pallecon IBC business there. She brings a lot of energy, different ways of thinking, but also a lot of experience in the pallet business. So the IBC team knows quite a bit, but Brambles has expertise elsewhere. How do you bring that to these teams and help them accelerate their growth and performance? Someone like Valerie can really elevate our team going forward.

The last but not least is new solutions. So it's one thing to move people around but that can be a very expensive way of actually transferring knowledge so we've also done an exchange program. We've taken leaders from each of the business segments and sent them to other regions, sometimes for a week, sometimes for a month; let them immerse themselves in their market and say what do you do in an ANZ that we could possibly apply in North America? What are we doing in California that the team in Benelux can actually benefit from? Drew will share with you a number of innovations that have not been new to Brambles but they've been new to one region that we worked very successfully in another. That type of transfer of expertise in solutions is helping us to grow.

So finally on intercontinental and geographic expansion. So we've done a couple of things here. So first of all in the Asia Pacific market - we used to call this our ANZ business because Pallecon IBC there was mostly Australia New Zealand. We now call it Asia Pacific because in the last 18 months we've successfully expanded to Thailand, Malaysia and Singapore; and to be clear - as Pete was talking about with emerging markets - these are very low cost entries. This is putting a person or two on the ground and taking assets from one market that are approaching end of life, fully depreciated assets, bringing them to this new market, introducing a pooling concept there. So it gives us a chance to learn the market, test customer willingness and re-evaluate market sizing with people on the ground and not a lot of investment. All three of these markets, while early stage, have proven to be quite attractive for us and we're leveraging that low cost model in other parts of the world.

Another example is here in North America. So we've built a good business certainly in the US, we've expanded that to Canada working with the pallet team there who actually acts as our sales force for IBCs in Canada, but then we've also this year begun to extend out in Mexico. I don't want to steal too much of Drew's thunder but between Drew's team, [Alessandro's] team, and then we have a few people - actually our partner from Cajas as well - is helping us to actually look at the Mexican market in saying how do we work together as a Brambles team? We've got IFCO in Mexico, we have the CHEP pallet team in Mexico, as we move the IBC business there how do we actually leverage people and expertise we have in the market so we don't actually reinvent the wheel for ourselves.

Then last but not least is intercon. I mentioned before we've actually started to win a bit in intercon, so I'll share a case study with you in a second but suffice to say that we built up expertise in intercontinental movements to support initially automotive business. It's turned out that this same expertise, as you would expect, applies to other parts of the company and specifically to IBCs. We've seen some early wins there, probably faster than we expected.

One of them is a company called Rana Meal. So many of you might have heard of this, it's a European base company and they're actually the largest filled pasta company in all of Europe. So our team in EMEA had actually approached Rana about doing some work with them within the continent. The response was we might want to work with you but we have a really urgent need right now. So we move all this basil powder and basil paste from Italy to North America. Right now we use these metal recycled drums: it's not an efficient solution for us; it's not optimised for sea container; it has issues with handling and safety; is there anything you can do?

So our EMEA team reached out to Drew and the team in North America, reached out to our intercontinental experts and put together a solution. It's a million dollar piece of business for us over a three year contract term, it allows us to prove ourselves to a great company like Rana, that opens up other intercontinental lanes with them. It also opens up a relationship in both North America and across the European continent as well. So this is exactly a kind of thing we can do to leverage knowledge and expertise but also get the businesses working together not as a North American business and EMEA business and an Asia Pacific business but as a true worldwide IBC business over time.

Now let's turn our attention to the automotive business and I'll take you back in time just a bit to how we've gotten where we are and what we're doing going forward that's a little bit different than we've done in the past. So for background - and again many of you have been with us for a while but some of you may be a little bit newer to Brambles, so just a real brief history. We've been in automotive for over 20 years and we've faced a lot of challenges and we've had a lot of success at the same time over the years. But in the last several years we've seen the wind down of manufacturing begin in Australia, and again we've seen a flat European market starting to come back now, and a Russian market which started to surge and then went backwards very quickly.

At the same time we started up a number of markets in places like China, India, North America which we re-entered several years ago, and then launched our intercontinental platform I guess now two years back. Those platforms for the most part have all done quite well and they've grown quite quickly but off a really small base. So they're working very hard to try to offset some European headwinds and then the challenge in Australia. But what we see fundamentally, if you remember that first bubble chart, we've got a very solid, very well established business that has the benefits of global scope and scale that we think no-one else has out there to offer today. So we really want to continue to invest in this business. We need to see more of the growth coming back and we certainly acknowledge and admit that, so our real focus is maintaining our performance financially while improving our performance on organic growth.

But we think that CHEP has unique advantages and what we've done is we've leveraged it into a new strategy in FY15 that we've just really began rolling out in the last 90 days. So that strategy, which internally we call CARS 2020 because everyone has to have a catchy name for their strategy, but it really is our five year strategy to change the business. The fundamental change we made is that right now we want to be the global, pooled packaging expert around the world. That seems pretty simple and you would think that's what Brambles and CHEP had focused on all along but what we've done historically is we actually ran the business as very discrete markets. So the North American team did their own thing, the European team did their own thing, South Africa, Brazil, Japan, China, India; everyone worked very independently. That's not the way the automotive industry works.

The OEMs and car manufacturers are used to large suppliers coming to them and saying Ford, GM, Volkswagen, BMW, I'd like to be your global partner for braking systems, for wiping systems, for exhaust systems. That's not how we worked and I think it caused us a lot of challenges really growing with our customers, working in these silos. We've now brought all the teams together, we've put them under one common leadership structure and we're beginning to go back to all our customers around the world and say listen, we are truly CHEP global automotive, the same service we give you in Detroit, or the same service we give you in Hamburg, we can give you that in India, in China and Brazil and Saudi Arabia. Very, very early stages, the team was just put in place in the last few months but we're already starting to see some early wins.

I think Drew may cover some of this, but I'll steal a little bit of his thunder. One of the industries we serve very well in Asia and in Europe is the exhaust system industry, catalytic converters and other parts of exhaust. We weren't serving them at all in North America because the North American team had no relationship with those providers there. In the last 90 days we've actually introduced the teams within our business to one another, shown how you win in exhaust systems and why it's a great solution for CHEP to support and we've already won just in the last 90 days two pieces of business with large global players in North America. Again, early stages on this, we have a lot more work to do internally and with the customers but the fact we do talk to them as one automotive business we know is going to make a real difference to our growth rate.

Then finally a last but not least, just to be clear there is not one global automotive strategy other than to be the global pooling leader. We represent that each one of our markets still has unique characteristics and differences so what we do in North America, the overall goal in the end state is the same, but how we work there growing our managed service business with the OEMs is different than how we'd work in Australia where we need to manage the wind down and redeploy the assets in more productive ways. So we understand our regional differences and that is part of our strategy, is to have an overall approach to customers in the market while actually managing each market to address some local issues.

Now I mentioned intercontinental as being a big growth opportunity and one of the things I'm really incredibly excited about is how quickly we're starting to see wins come in now that we've put in the spade work to build the expertise and understand how to make intercontinental work. A great example of this was just in the last few months we won a huge piece of business with Honeywell Turbo Technologies. Obviously everyone knows Honeywell the brand, great global brand, lots of opportunity in the automotive space.

So Honeywell had approached us almost a year ago and said, we actually make all these turbo chargers in India and China, we need to move them to mostly Europe, some to North America as well. Right now they move them one way corrugate, that's not very efficient, again for sea container utilisation, it subjects the parts to handling issues and damage issues, what can you do to work with us? It was a very long, very complicated process to work through this because when any company makes a big change from one solution to another they want to be 100% certain the partner they're working with is the right partner.

After much back and forth and a huge amount of work on the part of our teams in Europe, in North America and in Asia we actually won the business from Honeywell. We're about to just start up right now, the first issues actually start in October of this year. It'll take us most of FY16 to ramp up, so this is a gradual ramp up as we take on the lanes, but FY17 we're in full run rate. This is going to be $3 million plus per year in business just in this one product category alone. Given where we started off with no intercontinental business a $15 million contract with a huge brand like Honeywell we think is tremendously exciting.

There have been other wins during the course of the year as well and we think now that we've proven we can do this and we've got our people excited and customers excited we'll have a lot more to share with you in the years to come.

So now let's turn our attention over to the oil and gas segment and give you an update, and again for those of you who were with us at Melbourne this will be starting off with a review about what we said at Melbourne and what the reality has been. In many cases we'd like to say we've over delivered on our commitments, in not all cases is that true and this is one where we actually have a mixed set of results for sure in a tough environment.

So we said there were four levers of value creation and I'll walk through them but I know you have them in front of you. So the first is accelerating organic growth. As part of Brambles how does Ferguson move the growth along faster and bring our expertise and this has been a very mixed bag. So overall the industry has obviously been weighed down, we've had to work against that. But even despite that we've seen some really bright spots. So I mentioned on a pro forma basis at constant FX rates we actually saw in our rental business, which is the bulk of Ferguson and where really the money is generated, we actually did see a 7% growth in FY15. So again, we beat up the team every day and Tom beats up me every day but at the end of the day actually seeing growth in a very down market we think was a good outcome despite not achieving our goals there.

Now overall it's been a very mixed bag around the world. Some customers are doing okay, no one's doing great, some customers are doing okay, some are under a bit of pressure and some are really suffering. Now we've shared with you in the past our exposure is not to the highest risk, highest variable parts of the supply chain. So we don't do a lot of work in exploration and if we did we'd actually have a lot more challenge on the growth side, but even in segments we play and there strongly has been some challenge along the way and you see some mature markets - places like the Norwegian market and the Singaporean markets which were good markets for Ferguson - under a lot of pressure. At the same time markets we had started to invest in just at the time of acquisition, like the Middle East, have really continued and actually do quite well and our Middle Eastern business is up quite nicely year-on-year.

So for us it's a challenge for organic growth, battening down the hatches a little bit, taking out costs where we need to, but redeploying people and assets to markets and customers where the growth still does exist. Making sure that while we actually find ways to cut costs and make the business more and more efficient we don't lose our position as a premier player in the space and as the industry comes back, which obviously it will in the years to come, we're well positioned to capitalise on relationships and growth going forward.

So the second area we said we were going to focus on was strategic sourcing. How do we actually leverage what Brambles knows and the scale of Brambles to make the Ferguson business better? We've done a lot of good things in FY15, so we took the Ferguson purchasing team which was essentially two people and we've combined them with the Brambles procurement team. So now they're part of a much larger organisation, they have much more economies of scale and scope in terms of procurement and we know that we can drive a lot of costs out of the business. Now we haven't seen a lot of the benefits of this in FY15 because candidly we spent a bit of money on capital when we first bought the business, but then we turned off most of the capital spending in the second half of FY15 as you'd hopefully expect us to do when the market got fairly slow.

So we're much better positioned in terms of our sourcing team and we've expanded our relationships with low cost suppliers throughout Asia, but we haven't frankly bought much from them in FY15 and FY16 will be relatively slow as well. So we still have capital for maintenance and we do have some growth capital in our FY16 budget, but the benefits of sourcing will really kick in as the business starts to grow and the industry starts to rebound.

So the third area we talked about was regional diversification. Ferguson has a great global breadth and frankly, with one exception, it's the most global of all the players in the space but we have some markets that we don't play in today; most notably large portions of the African continent as well as the Americas where Ferguson does have no presence. So we talked about how we actually fill in those gaps in our portfolio and go to an Exxon, go to a Schlumberger, to go to a BP and become their true global partner around the world. Now we haven't done much on this in the year that's passed and again as you'd expect that's largely because the industry's been focused on many other things. We're trying to be very prudent stewards of capital in fine returns.

What we have done however, is we've had ongoing conversations with players all over the industry as we've gotten to know more of the people in there and we've focused very much on could we go into other markets through a greenfield approach, through a joint venture approach, through some other acquisition type approach and do a bolt on here or there. For us it's very much around three things. Any entry we do needs to have the right strategy behind it, does it make sense to our company, to our customers and our shareholders, what's the right structure? If it's an acquisition or it's an organic investment can we actually find a way through the financials to make it work? Last but not least are we actually confident that we're actually going to get the returns and minimise our risk at the same time.

In FY15 we didn't see any opportunities to do that to check all three of those blocks. So we do think the industry will shake out over the coming years, we are still very much prepared where we can create value when we know it actually delivers a good return to grow this business and invest in new areas. But we need to do it in conjunction with customers and it needs to meet our criteria for growth.

Last but not least our fourth category was optimising the assets we have in place. How do we actually get more organic benefit from the assets we've invested in and improve our asset utilisation? So on that front again a fairly challenging market makes it a bit tough to improve the utilisation of our assets when people are actually slowing down projects. What we've done here though is we've focused on areas where we could win and we've actually seen things like modules, for example, actually up very nicely year-on-year. So growth in that segment, which by the way has very good financial associated performance to it, we've done quite well. Overall our utilisation actually did come down as a business this year and again that's not what we had expected to do and not what we want to do but it really didn't surprise us in the space of the current market.

What we're looking at for FY16 and beyond though is how do we actually limit our investment in new assets and where it's financially appropriate to do so redeploy assets. I mentioned the market like the Middle East is actually doing quite well, rather than buying new assets for them there how do we take assets from a Norwegian market, from South East Asia, from Australia and redeploy them there and making better use of the capital we have in place? The team is very much focused on CapEx constraints and CapEx requirements, again we will invest in growth for maintenance and certainly invest in growth for customers but only where we make sure we can't use other assets we've already paid for first.

So finally let me just sum up our four priorities as we've talked about in other segments. What are we doing from a strategic standpoint across these complicated supply chains to drive the business forward and deliver on our value commitments to you and our investors? So first and foremost more organic growth. I started off saying organic growth was a mixed bag among the four supply chains but fundamentally we want to see a double-digit growth rate so we have quite a bit more to do on that front. We're changing our approach to tools and systems we have in place, we're upgrading our teams, and we're actually changing some of our incentives to focus more and more of our team's effort on making sure we get the organic growth rates we want.

Secondly is improving our operating margins. So I mentioned in Ferguson's case, but also for all of containers, we've now joined the Brambles procurement team so we have much more sophistication, much more scale to lever with our customers to do that. We are taking price in our businesses as well, again it's very targeted like the other teams have talked about. We don't take price equally everywhere, we talk to customers one by one and we discuss how are we adding more value, what are we seeing in terms of our price headwinds and therefore can we have a good conversation with them.

For some of our teams that's still a bit of a challenge. It's always a tough conversation to go to a customer and say I need to take your price up especially when your market's under siege right now. So for us it's going in with the data and saying we can prove to you why we can add more value, we need to get 1%, 2%, 3% and here's why that's going to bring value to you; here's what our costs look like. We've been very transparent with our customers about what it looks like.

The third area of focus is reducing overhead as a percentage of sales; how do we actually bring more of our business down towards the bottom line. We've done a number of things early on in the evolution of the containers group which we think were quite good but now give us a chance to pause and step back a bit. So like building a house, three years ago we didn't have a containers group. In order to actually bring the businesses together, to actually do acquisitions and integrate them properly, we needed to build the foundation for that house. We think we have invested well and we invested prudently, we're at the point now we're investing in group overheads. It's not something we need to do much of, in fact very little going forward.

So as the businesses grow around us we'll see our overheads at the containers level, and hopefully at the Brambles level, really stay flat and get much more leverage from that across the board. Secondly one way we can get more benefit from overheads is to leverage what Brambles has. So whether it's through the One Better program or other initiatives we're saying we don't want to invest much more on the overhead for the containers group, let's look across Brambles and say what does Brambles have that we can actually get benefit from and use resources the company's already invested in across the whole world to actually make our business better.

Finally, like all of our businesses, we're finding ways to leverage technology. What are we doing with technology in terms of allowing employees to do self-service, but also allowing customers to do that as well? Does a customer need someone on the other end of the phone every day, or would they prefer to actually go online and order containers themselves? The answer is it's a mix. So for customers who want a customer service rep to answer their phone we're going to have people there; but for customers who say I don't need that, I just want to go on and order IBCs, order automotive FLCs, order offshore containers can I do it myself, the answer more and more is yes to that. So a lot more automation coming into our business allows us to be more customer focused and more responsive but also to take cost out of our business.

Then last but not certainly not least is improving our return on the capital and that comes from two things. One is utilising our assets better that we have in place and then secondly is actually reducing the number of assets we have out there. In years past - I don't mean the last couple of years, but you go back five, 10 years ago whether it was automotive or IBC - we had a huge proliferation of SKUs. If a customer wanted something you didn't have in your fleet we would normally say yes to it, but if you look back we actually have a long legacy of assets that don't get a lot of utilisation turns today.

As we've gone forward more and more we discipline the customers down and if a customer asks for a bespoke set of packaging we explain why as the experts in packaging we don't think that's the right solution for them and we work with them to explain how the form factors we've invested in today can be applied for their use. Customers are actually very, very willing to go on the journey with us to do this and the feedback has been quite positive. You didn't just say no, you explained why CHEP has a better solution for me, you've sat down with my plant operations team and helped us adapt your solution to our needs. That's a kind of partnership and the customer centred mentality would be like we want to be great partners with you and you'll hear a great example from one of our key customers, from Darifair, about how we've worked with them over a very long period of time and hopefully the stories will be great going forward.

So with that I want to thank you guys for the time today. Again, I'm going to turn over to Drew who leads Pallecon IBC in automotive in North America. What we'll do is we'll save I think questions for the end and then Drew and I can answer questions for you together. So, Drew?

Drew Merrill: Yes, I live near lovely Detroit, thank you for that. So as Jason mentioned I'm here to provide a deeper dive on two of our North America container divisions, automotive and IBC. I'll spend about 20 minutes going through seven slides and we'll cover three things. One, how are we doing in North American automotive, but more importantly what are we doing to address this historical challenge in penetrating the North American OEMs. We'll review the successful growth we've had in IBC and talk about what we're doing to continue that growth and layer in some scale at the same time. Then lastly we'll have a great conversation with one of our longstanding customers, Darifair.

What I hope you get out of this are a few things. One is that we have a new service offering called managed services that's gaining traction with the North American OEMs and allowing us a platform for growth. You'll see that we'll have a method of continuing our double-digit growth in the IBC by being able to leverage some of those global practices, technologies and relationships that Jason referred to earlier; and we also have some adjacencies and some new geographies that allow us in a low risk way to add in scale for the IBC group. In our conversation with our customer I hope you'll see that we're not standing still, that despite a long 11 year relationship we're continuing to push each other to evolve and innovate together.

So with that, let's show a snapshot of our business - let's see here - where we'll talk about historical growth, some key features and some key partners we've picked up along the way. So you'll see on the left hand side there our combined North America automotive and IBC growth over the last five years. Just to note, historically we report out automotive and IBC globally from a revenue standpoint but I split it up for North America for two reasons. One, I want you to see that since the CAPS acquisition in January of 2011 we have continually had double-digit growth year over year with an ultimate CAGR of 23%.

Secondly as someone who's personally been on both sides of that CAPS acquisition I can say a lot of that growth is directly attributable to the value the Brambles CHEP family brought to CAPS through things like access to capital and leveraging some of these global relationships. We have roughly 90 employees serving 150 customers that canvass about 500 supply chain points between fillers and users, OEMs and suppliers. To support those customers we have roughly 400,000 containers ranging in size from small handheld totes up to some of the larger containers you see in the other room. I'm happy to report that we continue to maintain our trend in IBC as far as not losing a customer in the IBC [trip rental] since the inception of business. It scares me to have that up every year because you never know, but knock on wood we're having a good run there.

We've also picked up some great partnerships along the way. You'll talk with Darifair who is our first customer and still remains one of our largest. Through the recent acquisition of Transpac our relationship with P&G has evolved beyond just being about wood pallets and we're now working on inbound movements of raw material goods like adhesive products and other things like that. Through leveraging our relationships in Europe we were able to make our first penetration in the cosmetic industry with L'Oréal, and I have a case study that I'll go into that a little bit.

Then through our retooled offering in North America we've signed a multiyear contract with General Motors to help them on their path for reusable packaging excellence.

So let's stick with automotive and talk a little bit more about the strategic rationale about why we're changing our approach in automotive and what some of the key priorities are going forward. So historically we've had some decent traction with the tiered suppliers and with the non-automotive OEMs. But we've had limited traction with the large auto OEMs primarily because they have a preference for their own large customer owned pools. So in essence if you think about it CHEP is competing with the containerisation groups that are embedded within these large OEMs and so to shift that conversation we broadened our solution set to offer a wider range of non-asset based options - some of them you see up here: track and trace; onsite container processing; offsite container maintenance - and try to help them support in their journey as opposed to compete.

So what are we doing with GM? Well we roughly have about 40 CHEP employees that are positioned at various GM plants in Canada, US and Mexico. We have a team that's in the field to support the thousands of inbound suppliers. We have a group at our call centre that canvasses all the suppliers to ensure compliance with the various GM technologies, GM processes. Then we have a few folks at their containerisation corporate to coordinate the efforts and really act as an extension for these containerisation groups in doing things like reducing the amount of cardboard expendable substitution they have, avoiding capital for replacements, reducing premium freight and a few other things.

So you see our first key priority going forward, we obviously need to execute flawlessly with GM but how do we take this and how do we grow this within the industry? We want to continue pooling conversions to procure tier one supplier targets. Jason referred to some success we've had in the exhaust sector and that has translated well having more of this globally knit conversation. Mexico continues to be a huge hotbed, as you know, for automotive. At least one out of 10 cars are manufactured there so getting that infrastructure in place and having that cross border expertise is critical for us to do that and some of our customers have brought us along for the ride and we're supporting there now in Mexico, so we're positioned. Then lastly as you saw with Honeywell, intercon continues to be a good differentiator for us in the market and a good point of entry point.

So let's jump back now over to IBC and talk a little bit why we're looking just beyond our core liquid markets. It's a very simple three-step plan and I wish execution was easy as one, two, three; it obviously requires some discipline to effect it, but there's a reason why it's not just about liquid. We'll continue and entrench and expand and there's a lot of white space in the market, but when you have a liquid product and you're conveying it over the road for a particular customer once the volume gets to a certain size there's a tendency where they'll move out of the IBC, the intermediate bulk container, format for something larger, like bulk tanker over the road. So what this means is we tend to see smaller deals within this and so when you have a long sales cycle with smaller deals your timescale's a little bit broader.

So with that we're layering in some close adjacencies that have bigger deal opportunity place and close means leveraging customers, leveraging existent operations, taking a leveraged approach and then also looking at some other geographies. So before we get into two and three, why don't we talk a little bit more how we're leveraging global technologies and relationships to continue this double-digit trend in our core liquid markets?

So you'll see a number of, we call them accessories or quick hit innovations. These are tools that we can use with our customer to improve the experience from a fill or a decant standpoint and the key takeaway here, none of these innovations existed prior to the CAPS acquisition. It was really after the acquisition of CEVA where we blended them into the IBC family and had our three regions in APac, EMEA and the US and the exchange program that allowed us to embed different employees in different groups to learn about what's working in Europe; what are the technologies we can leverage; are there relationships we can bring back home? Then we bring them back in and they're tasked with executing on that.

So whether it's a heater pad that helps liquefy some of the edible oil products, all the way up to a bladeless air agitator that premixes the product before you empty it, these are all new ways that allow us to extend the opportunity within our existing core markets; but more importantly position us as solution experts with that customer that allows us to optimise value. But it's not just technologies we're leveraging.

I showed you earlier L'Oréal, it's a perfect example of us with our conversations in Europe. When we acquired CEVA about 20% of their business was cosmetic based and North America was pretty close to that. So being able to embed ourselves over there, learn about what are the customer relationships they have, what are the specific pain points in the industry we can solve for, and bringing that back we were able, with very little traction in the US market, land with one of the largest cosmetic providers a great deal.

This opportunity is in Florence, Kentucky L'Oréal, that's where they make all their North American shampoos, and the platform they were using before was something called a rigid bottle in a cage. Through our solution they were able to not only reduce the per pound packaging cost, but also reduce the amount of product left in the container after it was emptied. They were able - because our containers collapse, because they're more durable, can stack higher when full - significantly reduce the floor space both at the plant and at the end users that were using it. Because we use a single use liner every time we fill a container the risk of cross contamination went down. So just a great example of transferring a relationship abroad into revenue at home and embedding ourselves in a new sector that we didn't have experience with before and have something to build on going forward.

So let's jump into some of the adjacency players we're looking at in the new regions. In the interest of time I won't go through in great detail each of these, but if you look across the slide and look at meat, look at dry, bulk produce, Mexico, Brazil, there's a common theme. Because we're experiencing decent growth in our core liquid markets we have the opportunity to be both patient and pick in what we're looking at in the future. What I mean by picky, it's taking a low risk approach with a gated process for the deployment of resources and capital based on early successes; and meat's a great example of that.

If we were still CAPS in the old days and we wanted to go after the meat sector we would have to put together a go to market team, we'd have to invest in sales, marketing resources, we'd have to learn about the customers. But if you know anything about the meat industry in North America there are four or five big players and then it becomes highly fractured below that. We happen to have longstanding pallet relationships with each of these large players. So to get that kind of access early on to the decision makers as you're going through a prototype process to see what type of container would be sell for their pain points that's a rare good experience that allows a real low risk approach to try. Then before we make that big next step which might mean buying automated washing equipment or investing in the right service centre infrastructure, we get key green lights based upon that gated process.

Mexico's another great example. Roberto from Cajas Agricolas, so we're absolutely aware of all the opportunity with automotive from a Mexican standpoint but in IBC we're still learning and here we have a wonderful partner that's a longstanding customer of IFCO, they understand the market, they have good relationships. We're leveraging them as our sales partner to explore Mexico and understand what the opportunity is there and then we'll scale up behind that. So it's just being smart how we do it, it may take a little longer but it's a prudent approach when that's layered on with our existing liquid growth, provides us a nice growth pattern

So with that we're going to have a conversation with a customer. I'd love to introduce Rob. Rob Welling is the Vice President of Supply Chain for Darifair which is a food solutions based company. We're going to get you a microphone in just a second. As we mentioned they're our first and largest customer, one of our largest customers, and Rob if you come up here why don't you just talk a little bit about Darifair, maybe why you chose CHEP and if you could tee up the video on innovation and how we jointly got together to address some of the food safety challenges I'd appreciate it.

Rob Welling: (Darifair, Vice President - Supply Chain) Absolutely, good afternoon. Good to see everybody, nice to meet a lot of you over the last 24 hours. I'm Rob Welling and I'm Vice President of Supply Chain for Darifair Foods out of Jacksonville, Florida. A little bit about Darifair: we're a private, family owned, third generation dairy food solutions based company. A lot of what we do is very custom orientated. We run a research and development centre in Jacksonville, we have five chefs on staff, four food scientists and we're very solutions based. Half of our business is geared towards the major national restaurant chains, the other half of our business is for the industrial use. Thus our relationship with CAPS came about 11 years ago, 2004.

Since then with the acquisition and merger in with CHEP and with Brambles we've been able to advance our business with them dramatically. A lot of what we're doing today is innovative, challenging and demanding. Trust me, I'm demanding on them. With that, we started out 10 years ago, or I started out managing the business 10 years ago. We were doing a whopping, significant amount of business. Today I can say we're 11 fold that and growing double-digit each year. So with that we're really excited about our relationship with CHEP and with the future that they bring.

One of the things we brought to the table though with them is I challenged Drew and his team two years ago, two and a half years ago, to bring about trace and track, identification, being able to obligate ourselves today and in the future to what food safety in America was bringing to the table. Many of you have talked about food safety already, a couple of you have talked about trace and track, and when I'm dealing with a unit like the large tote that you see around the corner out there and you've got 315 gallons of dairy fluid in there which is usually pretty expensive because it's a custom product and when we have truckloads of that and it's very perishable I need to know where it is 24 hours a day.

Thus right now, at this point with the CHEP track system not only have they brought IT to the table and Brambles has supported that - Tom, thank you - and you've seen it referred to elsewhere in other segments of your organisation, we've brought rubber to the road. We're doing it right now. I know where every one of my totes are 24 hours a day, seven days a week which is huge, it's very important, it's very demanding and we're already talking about next generation, Drew, of what we're going to take it to next. So such as temperature control, RFI readers, different things like that that we have to be innovative to each other and challenge each other in what we do.

So with that we've had a great run so far and with that we started out 20 years ago with one filler, three end users; today we have 11 fillers and over 18 users some of which our users are some of the largest industrial customers in America across the United States. So with that we're really tickled with the relationship we've had with CHEP and with the tote program, we keep challenging each other as we go on. It is a true partnership, it's not one of these where I beat him up and see what kind of price I can get. Oh yes, I'm going to pay him a fair price, he needs to make a penny, not a nickel, I'll let him make a penny okay. But with that he has to provide a great service and with that they do provide a great service for us. Okay, any questions?

Drew Merrill: Will we want to show the video real quick?

Rob Welling: (Darifair, Vice President - Supply Chain) Excuse me, I almost forgot. Please.

Drew Merrill: [Unclear] before so I'm going to see if this works here. Do you want to cue that video that was up?

[Video plays]

Rob Welling: (Darifair, Vice President - Supply Chain) So CHEP track has allowed us a great opportunity to be able to measure, monitor, track, trace, have controls on our inventory and on our finished goods that we're providing to our customers.

I will tell you about a year and a half ago we had an episode where one of those major customers called into our office with a real concern and a potential for a nationwide product recall. Within a matter of seconds my assistant was at the other end of the building, by the time I walked over we had generated off of the website all the information about that load, all 15 totes, all the bar scans off of each unit, the safety seals, the [unclear] positions, the temperature registration and we were able to instantaneously send that over to the client and they immediately responded and said it isn't you. So it was a good feeling to know that we had that kind of information.

One or two of the other things about the program that we've put together: why do we use their totes; why do we use their system; why didn't we go out and buy it? I don't want the assets, I don't want to make the investment. Our philosophy within Darifair is we use other people's assets, we use other people's money and we use other people's expertise. These guys are the experts in the field and how many times, Drew, have I called up and said hey Drew, we've got a situation in Montana, we need to figure out a solution. Oh, I'm sorry you have to figure out the solution, you're the expert in the business; and we truly appreciate that relationship and the ability to be able to pick up the phone and call him and have that kind of conversation. So with that.

Jason Rabbino: Yes, so any questions? IBC auto, containers in general, something specific for Rob? Will.

Will: With the automotive business given the Australian operations are really coming backwards, I think you said it's 9% of that business, is there enough growth in the other parts of the business to upset that decline?

Jason Rabbino: Yes, I mean the short answer is yes there is. Largely for us the issue is that in some parts of the world we haven't actually delivered the growth rate at the scale we need to, so Drew's business is a good example.

It actually grew very phenomenally last year but off a small base. But if you say if we can keep up that growth rate for the next two or three years that does offset the Australian downside. Yes, we also see that even though the manufacture is declining in Australia it doesn't mean we throw up our hands and say too bad, we still have imports coming in, we still have aftermarket business going on. So we think there's still opportunities in the Aussie market, but yes, we fundamentally need to offset in other parts of the world.

But you will see as North America, as intercon and as places like India and China grow there's going to be probably an overlap year where Australia's going to downsize a bit faster than they do and then probably somewhere in the next 12 to 24 months you'll see a tipping point where we've more than offset that and we actually have a lot more headwind. But again it's having the right strategy and going to market as a global player is very different than going to market as nine different regions trying to knock on doors. So we think it's fundamental that you start with the right strategy and then you get the growth and Australia - it's unfortunate for us but ultimately at the end of the day we think we'll actually offset that okay.

Unidentified Participant: You yourself mentioned that containers as a division has a lot of different businesses but we see one return on capital. Can you give a bit more detail about what parts of containers are high returns versus the fledgling businesses which are low?

Jason Rabbino: Sure, so I will give as much detail as I can without having Z throw things at me. So - and Z's going to come back to the overall and he'll share a bit more I think in his section. But if you go back to that first slide where we essentially have the value creation frontier I mean that is our cost to capital line for all intents and purposes. So what you'd say is that the automotive business is well above that and without getting into gory detail it looks a lot like what the numbers you'd like to expect from Brambles overall.

So the IBC business and the oil and gas business are hovering, relatively speaking, below that or just below that but again if you do exclude goodwill and intangibles those businesses on an incremental basis actually have very nice return. So our challenge is to accelerate the growth, improve the profitability and actually get them consistently above the line on an all in basis and they're moving in the right direction right now; again, granted oil and gas being probably a challenge for the near term.

The one that sticks out in terms of the supply chains we focus on is aerospace. That continues to move to the right in terms of requiring a lot of capital put into it and we're not right now seeing quite the trajectory we want. The top line growth is quite good, but the return on capital is still lagging well behind where it needs to be and that's why every year we've said more and more the business has to meet certain thresholds. It's meeting the growth thresholds, it's meeting some of the underlying profit thresholds, but the return on capital is not what we'd expect from a Brambles business. So hopefully that was clear enough while being still vague enough to keep me out of trouble. Thumbs up from Z, that's a good sign.

Drew Merrill: Anyone else? Anthony.

Anthony Moulder: (Citigroup, Analyst) Rob, from a customer's perspective what could CHEP do better?

Jason Rabbino: What can CHEP do better?

Drew Merrill: From a customer's perspective what do CHEP do better?

Rob Welling: (Darifair, Vice President - Supply Chain) I think good communications, rising to the challenge. Our business is very quick and some of the horror stories I could share with you from a development, R&D perspective in the food industry. Our company is extremely nimble and very quick to market and sometimes we've brought challenges to CHEP and to Drew's organisation and they've responded admirably. So I think one of the things is quick to respond, good communications. They've delivered a good service. Rarely, if ever, I think I've had one occasion where we had to have a tough discussion but they've addressed that matter quickly. So as a customer I'm real pleased with them.

Anthony Moulder: (Citigroup, Analyst) One of the issues we hear is about their invoicing, their ease of business. How do you rate that?

Rob Welling: (Darifair, Vice President - Supply Chain) As a...

Drew Merrill: He's asking about the invoicing.

Rob Welling: (Darifair, Vice President - Supply Chain) Oh, as far as the complexity it's real simple for me. I'm coin operated, I pay on a per trip basis with our tote systems. Is that where you were headed?

Anthony Moulder: (Citigroup, Analyst) Yes, that's...

Rob Welling: (Darifair, Vice President - Supply Chain) Okay, and with that there's services associated with that. In some instances - we had one ugly situation up in the upper Midwest where we could not get the correct logistics to it. So literally I rented the totes from them on a per diem basis and then we paid another operator to clean them and then we brought them back. In other situations they provide a full service for me from beginning to end so that at my filler, at my dairy, they bring in the clean containers, shrouded in plastic, had been sanitised. All our operator does is pop it open, as you saw in that video, we put the bridge on it like you'll see on one out there and they fill it up, we put the lid on it, seal it up, ship it off to our end user - and some of our end users are some of the largest name customers in America out there as industrial customers - they decant it. Once they're done it's set to the side, they pick it up. It's a complete cycle.

With that and the CHEP track system too with that, Anthony, what we've done is developed a closed cycle of communications so that when that unit is shipped from their facility into our filling dairy it's scanned out, it's received in. When we fill it it's scanned back out and the barcodes are scanned, the information is recorded, it's all uploaded. When it comes to my end user customer that's where it's being used it's received in. Then they come through and do a pick up. So at all times we know exactly where that asset is whether in their possession, in our dairy's possession or in my end users possession. So it's a really good system and we really enjoy the opportunity there. But also too the invoicing is very clear; it's a per trip basis.

Anthony Moulder: (Citigroup, Analyst) I guess some other customers would wish they had such an ease of invoicing system as well. For the oil and gas business you mentioned 22% down as far as the CapEx spend. Is that how we should be thinking about the growth trajectory of oil and gas? Or how can you offset to grow more than that kind of decline that you're seeing across the customer based on CapEx?

Jason Rabbino: Good question. The short answer is no I wouldn't say that's how you should think about it in Australia from a Brambles perspective. No, obviously it's a pretty big industry and so we talk in the old large macro numbers so that's an overall industry aggregate. What you see is that that's more heavily weighted towards the exploration, the true upstream portion of it. So if you look at where we play, which is more around the production space - again there are many different numbers you can cite so I don't want to pick one that I happen to like - but that's anywhere from 5% to 15% down year-on-year. So you'd say okay, that's what their CapEx spend looks like.

What it means for us though is that even if people are slowing down in some cases they need to decommission old assets where they're going to shut down some rigs. To decommission you still need containers offshore to shut them down so there's still opportunities there for us. We are not as cyclical as the industry itself overall.

The other issue you see is again it might be down in one market, I mentioned Norway and South East Asia as being markets where the CapEx is down much larger than that across the whole spectrum; other markets like the Middle East are still spending. Frankly the North Sea has actually held up relatively well. Now again, given the projections of the industry we expect some markets to see more challenge going forward, but net-net we've got a couple of markets which are clear challenges for us; others that are holding up pretty well, North Sea, Australia actually being a pretty decent market despite tough conditions; and then some markets which are doing well.

So it's not a single industry story, it's a tale of different stories and our responsibility, as they said, is if we have industries where the CapEx is slowing down how do you take the capital you've already put out there and redeploy in efficient ways. So it's - I'm not saying it's easy, our teams are working really, really hard to deal with this but I think we've done a good job. It's expected the next year or so is going to be tough sledding but we think that in a tough market we'll be the standout relative to the peer group for sure.

Anthony Moulder: (Citigroup, Analyst) Thank you.

Jason Rabbino: Anthony, if I could. Just on your question on the customer one because we get that a lot, I think what I can - and I don't want to speak on behalf of our customers per se - but if you look at our four supply chains our automotive business is actually the one that grew up within the CHEP family so that's the one that's tied into SAP and other things. Our invoicing there looks a lot like what you see in the pallet portion of the business. So and I spend more than a third of my time with customers, the one customer segment which actually gives me the most complaints is the one that's tied to our core legacy systems. Now Pete mentioned the My CHEP program because that's being applied for the SAP environment all told. The auto team's actually going to benefit from that.

So you don't hear those customer issues for the most part in aerospace and IBC and oil and gas, and I think that the issue we had historically in the automotive segment is going to be solved in part by the work that Pete and his team have done. Not fixed by the way, partly solved.

Paul Butler: (Credit Suisse, Analyst) Hey Jason, Paul Butler here.

Jason Rabbino: Yes, hey Paul.

Paul Butler: (Credit Suisse, Analyst) Just wondering if you can share what you see happening, what your competitors are doing in the oil and gas space. Are they, is there any chance that you're going to see some players exit the market?

Jason Rabbino: Yes, it's a good question and as you might expect we spend a fair bit of time talking about that. We see people doing different things, so we have one competitor who happens to be a bit larger than us and we have a lot of competitors who are smaller and then some who are mum and pop shops. The mum and pops for the most part have either begun to go away, or they're actually acting somewhat irrationally, but these are people who may have one or two customers, maybe 500 or 1000 assets. So they're not doing things to fundamentally crash the market and we think those are players who will fade away or can be acquisition opportunities for us at a very attractive multiple in the next couple of years.

What you see there though, and sort of a saying in this offshore container industry that containers never die, they just re-emerge somewhere else and I think it's true in the pallet industry as well. So we realise that even when smaller players go away the assets don't disappear. So there may be opportunities where people fade away and we can actually just get assets where we need them on the cheap. Now some of the larger players - a lot went on in the industry around the time we did Ferguson, right, so Swire basically stayed kind of as they were but then a company called OEG which was acquired by KKR around the same time we did our deal, and then a company called Hoover - which many of you may have heard of - which was acquired by the company called First Reserve, a large private equity firm.

So there was a lot of dynamics going on just as all this happened and we see those players acting relatively rationally in the industry. People are cutting prices selectively but I think everyone said listen, people have been through these cycles before. This one is a bit odd and a bit different for people who have been in the industry for a long time, but most people are saying listen, we need to cut costs, we need to be aggressive on price where it makes sense, but you can't destroy the economics of the industry.

We've had a lot of customers come to us - I wouldn't say everyone, but all of them except one or two - and said we need you to cut your prices, the industry is down. In some cases we actually have where we felt like we had an opportunity to do that and still maintain a good return, in others we've gone back and one of the things we had on our side was that as the industry has boomed we have not raised prices for the most part, and this is true in both CCC and in Ferguson. So we've actually had a pretty good leg to stand on and said listen, we've given you all the upside for the last five, seven years in the industry run up; we understand that you're under pressure but hey, we've been good partners for you.

I would say most customers have been okay with that answer because the thing that we've always stood for in both CCC and at Ferguson is we're not usually the low cost provider, we're the person who's always going to provide the highest quality asset and the best quality of service. People are always going to pay a little bit more, now in this environment they're not going to pay a lot more but they actually have said okay, we value what you do so your competitors may do X, Y, Z, but fundamentally want to work with you.

That's a global answer. Again, in some of these challenged markets, Norway, you probably see more irrational behaviour than you see in the North Sea, in the Gulf of Mexico, Australia and the Middle East, so that's a market where you see competitors doing some odd things. But fundamentally we want to run a good business, which means we need to be competitive in the market but we want to maintain that quality and our brand image that we've had all along. So we don't follow the competition. We [necessarily] see what they're doing and where we think we need to compete we will. But it's not a race to the bottom and we're not going to play that game.

Brambles

Paul Butler: (Credit Suisse, Analyst) Okay, and just one more if I can. Is there anything you can share with us on what your focus has been in terms of your corporate strategy role?

Jason Rabbino: Sure. Tom may chime in on this as well if he wants to. I think many of you know just a little over a year ago I took on the role for leading corporate strategy for the Company as well. There it's been a couple of things. I'd say on an internal basis it's been more about how we improve our strategic planning process. Frankly I think we've had a good one today but one of the benefits and one of the downsides is you're giving an operator leader control over strategy and I start complaining to myself all the time the strategy process is very annoying.

So we've actually now, I'd say, improved the process such that it's not perfect but it's much more - well for me as an operating leader, okay what do I need from the strategy process and how do I satisfy the needs of Brambles and our shareholders, and I'd say - and these guys can chime in - but I think that we don't always agree but Pete, Wolfgang and I talk a lot more about how do we make the process constantly better for the business. So I'd say it's more business focused and more outcome oriented and not quite as theoretical. Again, I'm not saying it was entirely theoretical before but I think more the dialogue with the operating team has improved quite a bit. So that's the internal answer.

I think the external answer and the one that's probably more important is you've heard one theme throughout - well hopefully you've heard many - but you've heard one consistent theme throughout the way, which is solutions, solutions, solutions. We're always going to be the best pallet pooler, the best IBC pooler, the best automotive pooler, the best RPC pooler, let's assume that's a given. We want to be more than that going forward. I think if you go back in Brambles history we were very diversified for a long time and then we were a pooler with Recall and then we were a pooler. Now we're coming out the other side. So I think our strategy is talking more about - some people asked - I think Kim got this question, how do you actually expand the range of what you're doing without losing your core DNA and what separates you competitively from other people.

So I'd say when you ask me where I spend my time, a lot of it is working with the business leaders, with the corporate leaders, with Tom and the Board saying we want to be a bit more without losing what we fundamentally are that makes us unique. That's a great strategic challenge. I think we're doing a great job. You've heard bits and pieces of that today. I'd say if you fast-forward a few years I want people to think of Brambles as the world's best pooler but I want them to think of them as a solutions provider. I think you heard from Darifair, I mean we talked about the totes and the assets but your comment is more about partnership, I think that's something you don't hear universally across our customer base and that's where our strategy's heading the coming years.

Cierra Obioha: Well all right, I guess that concludes the Q&A, thank you gentlemen.

Jason Rabbino: Thank you.

Cierra Obioha: We'll go ahead and take a quick break. If everyone could be back in about five minutes that would be helpful.

Zlatko Todorcevski: Keep it going Steve. The boss had me actually worried all day today I think. Some of you know that I was born and raised in Wollongong and I thought he'd play a song called Bogan, but I'll take AC/DC any day of the week.

Tom Gorman: Half the audience doesn't know what that means.

Zlatko Todorcevski: I'll explain it to the foreigners later.

Tom Gorman: You're the foreigner pal.

[Laughter]

Zlatko Todorcevski: We'll just keep the banter going for a little while. So look, maybe before I jump in hopefully - we do these investment market briefings about every 18 months, so hopefully you've got a lot of value out of today here, particularly from the business leaders and various people from around the business. As we always do we transparently talk about some of the issues that we're facing and tell you about how we're going to deal with those issues, but more importantly we also talk about the opportunities. It's a great chance for us to give you a sense of how we see those opportunities panning out across the group. In particularly those opportunities play into what I want to spend a little bit of time talking to you about here today.

Two things in particular that I'll cover is - and Tom touched on this yesterday - is return on capital. I think it's fair to say that we're focused on return on capital but we're not fixated on return on capital. So I'll spend a little bit of time talking about how we think about return on capital in the context of broader value creation and some of the other metrics that we look at, then importantly how that focus on return on capital and those other metrics play into how we make decisions about how we allocate capital. So I know there's been a lot of questions around the $1.5 billion of growth CapEx that we spoke about at the full year results, and I'll give you a little bit of a sense of what that looks like and how we're thinking about how we're going to allocate that capital.

Now this won't be an applied theoretical finance discussion, there won't be any Greek alphabets or anything like that used here but we'll keep it fairly practical and try to make sure you understand how we're thinking about it at the macro level. I'll get rid of that very quickly. But first of all let me touch on the last five years and just explain the journey we've gone through and where we sit today and the very, very solid base that we've got to build off. The chart you've got up on the screen, as you've heard us talk on a number of occasions in the last day and a bit really emphasises the quantity and quality of the equation of how we see value creation going forward.

So on the dark blue bars there you can see the average capital invested profile for the business over the last five years, starting back in FY11. You can see that it's significantly grown over that period of time, from less than $4 billion to in excess of $6 billion in FY15. That's a result of a very strong investment that we've put into growth over that period of time but also reflects the fact that we've done a number of acquisitions and clearly those acquisitions have come with goodwill as well. So we've seen very, very strong growth in ACI over that five year period.

At the same time if you look at that solid yellow line the reported return on capital right across the business hasn't really changed a great deal. I think that's a testament to the quality of the underlying business we've got where we've been able to deliver improvements in those underlying businesses to really offset the impact of goodwill as we think about reported return on capital. But if you look at that dashed yellow line towards the top of the page, that shows you what return on capital, excluding the impact of intangibles and goodwill looks like. As you can see there it's quite a substantial number and once again it hasn't really changed over that five year period, despite the fact that we have entered a number of new geographies and we have entered a number of new sectors that are relatively immature and as we spoke on a number of occasions generally don't deliver the kind of return on capital the base business does.

So where we sit today we have expanded the base quite considerably over that five year period but we feel very good about where we sit today and have a very strong position on which to build over the next five years.

The other key takeaway from this slide that I think is fairly obvious is that most of the value creation that we have achieved over the last five years has really been driven by the quantity part of that equation. So really increasing the capital base without really diluting the return on capital over that period of time. But going forward our focus is to get much more of a balance. So you'll continue to see strong growth in investment but at the same time a refocus on ensuring that we get the right kind of quality equation out of the business as well.

I'll spend a little bit of time just going through each of the businesses and I'll start with pallets. So maybe just to orient you on the slide. So what this picture is showing you on the X-axis is sales revenue over average capital invested and on the Y-axis we're talking about underlying profit margins. I think the key takeaway from the pallets business over the last five years is that we've seen consistent incremental improvement in return on capital as has been publically reported over that five year period. Once again, I think that goes to the strength of the pallets portfolio when despite the fact that we periodically face challenges in some of our businesses like we're seeing in the North American business with sharp transportation inflation and higher plant costs from some of the damage rate issues we've been talking about, that the overall pallets group has been able to show an improvement in return on capital over that period of time.

Now the forward plan is to continue to show improvement in return on capital of a similar nature, small, incremental steps year-on-year but the composition of that improvement going forward will obviously be quite different to what we've seen in the last five years. We've been talking to you about the fact that we don't expect to see pallets in Europe increase its return on capital substantially, in fact we'll probably see that going backwards a little bit from where it has been, particularly in FY15, but we do see opportunities particularly in the US pallets business to more than offset that so we continue to see incremental improvement overall.

Now in terms of where we see the key building blocks of value creation - and Pete and Kim in particular spoke about this earlier today - but continued investment particularly in our more well established businesses. That investment comes in a number of forms. It includes protecting the very, very strong business that we've got, particularly where we've got high penetration, but also continuing to focus investment as we see diversification opportunities or further penetration opportunities to make sure that we capture those in all of the established markets we're in.

Continuing to mitigate some of the issues that we're seeing particularly in America, as I said, the transportation, sharp inflation we saw in FY15, we expect that to moderate a little bit but continue in '16, but we're focused on how we offset that and then how we deal with some of the durability initiatives that Kim was talking about to offset some of the plant cost challenges we've had in the last year or so.

Then finally we're focused on how we continue to manage cost right across the business. You'd be aware that we've had an operating cost challenge for the last four years or so to take $100 million out of the business. That's now done and delivered. That doesn't mean we stop focusing on operating efficiencies. In the same was we continue to focus on overheads. So that's always going to be a feature of what we try to do within that business.

But fair to say given the scale of the pallets business this will be the part of the Brambles' organisation that continues to be the main driver of value going forward over the next four or five years as well.

If we next look at RPCs, this is probably more of a complex story than what we've seen in the pallets business. So if you go back to FY10 you can see on this chart here that the RPCs' business back then was delivering a return on capital in excess of 20%. That's what we'd normally expect from most of the pooling businesses once they're at a mature state. But clearly our competitive position in some of the markets we're in and our ability to compete at that point in time, particularly with IFCO, was not where we wanted it to be, so we bought them. As you can see then from FY10 through to FY11 and 12 our return on capital declined as well took on board the goodwill from the IFCO acquisition. It continued to either decline or moderate a little bit as we continued to invest a lot of money into the IFCO business to make sure that we could have availability, continue to win customers and grow that business the way that we knew we could.

Pleasingly more recently in FY15 we did show that improvement in return on capital that Wolfgang was talking about. So we are starting to see a more positive trend. But as we've spoken about with the go forward investment profile we continue to see opportunities to invest both in Europe in particular and North America as well as in South America and other emerging markets.

I think importantly within RPC, if you have a look at the star on this chart, that's the return on capital from the RPC business, excluding intangibles and goodwill. Now I'll come back and talk about that more in a moment but that's really important for us, particularly as we think about the high level of incremental investment hat we're going to put into the business over the next four years. That's comparable to what we're seeing in some of the more established pallets businesses.

Similarly, if you think about some of the key value drivers, we've shared with you a lot of data around the European RPCs' business, not so much around ANZ and South Africa, but fair to say they're more established and they're delivering similar rates of return as we're seeing in the European RPC business at the moment.

We're also focused on supporting Dan Walsh and his team around making sure that as they grow the business aggressively they get further penetration and build scale in North America, we can drive some efficiencies out of that business. Although we've got some fantastically exciting opportunities in new, emerging markets that Wolfgang alluded to, we also want to make sure that we continue to be fairly disciplined and prudent particularly in how we deploy both financial and in particular human capital, because Wolfgang doesn't have a huge team, we want to make sure that he's actually focused on the biggest prize as well as planting some of the seeds for the longer term opportunities that we see.

Then if we move to containers, similar story. So Jason touched on some of this. But if you go back to FY10 again the core businesses that we had within what's today the containers group back then, we're very high returning capital businesses. So it was predominantly the European automotive business as well as the chemical and cattle container business. But at that point in time we weren't satisfied with the growth we were getting across containers and we created the containers' group and obviously Jason joined us and we've reinvigorated growth. In particular we've not only challenged the organic growth profile but we've taken on a number of acquisition opportunities.

So over the last five years you've seen reported return on capital decrease from that 20% to be around the 7% or 8% on a reported basis. But as we did with RPCs, if you exclude the impact of intangibles and goodwill the reported return on capital right across the container's group is in that mid-teens range, drawn down a little bit by aerospace. So as Jason was alluding too there was a little bit of a mix effect there and some of our businesses are at the same kind of return on capital as we see in pallets, if not a little bit better, but drawn back particularly by the impact of aerospace.

Then as we think about the key value drivers going forward from the containers business it's really about reinvigorating this global growth strategy within the automotive business that Jason spoke about, really making sure that we continue to deliver scale efficiencies and you saw some of the impact in that particularly in '15 as we start to leverage the overheads we got within the group but continue to focus on operating efficiencies as well. Then Drew, I think very articulately spoke about some of the opportunities we're seeing in IBC. So how we continue to net that business from three regions into more of a global business and share learnings but then also think about how we continue to join the dots intercontinentally. So that will be part of the focus that we bring to that business over the next four years.

What I now want to do is spend a little bit of time just talking about the $1.5 billion in growth CapEx that we spoke about, about three or four weeks ago. Before I do that there have been a couple of questions around the group just around the composition of the $1.5 billion. So before I dive in and explain the slide I'll just give a sense of what's in that $1.5 billion. So broadly 55% of it will be spent on the pallets group, roughly 35% will be spent on RPCs and the balance being 10% will be focused on growth within the container sector. So we didn't share that with you last time and clearly that will evolve as we get greater visibility around where the opportunities sit and the timing off all that, but broadly that's how we're thinking about the break-up of the $1.5 billion.

Now in terms of the chart I will say it's not exactly to scale but I think if you think about the relative positioning of some of the businesses we have up there and the relative size of the bubbles that's probably the important piece to focus on. What the chart shows is the growth in average capital invested on the horizontal axis and if you look on the vertical axis we're talking about return on capital invested there. The curve represents the point where those two factors, both the quantity and quality merge to create value as we see it today, particularly from a BVA perspective.

As I said, the size of those different bubbles reflects what we anticipate the growth CapEx to be across each of those businesses and then particularly with a focus on incremental CapEx. So if you look at the ACI that we're talking about there and the return on capital, they're both excluding intangibles. We're doing that because as we focus on the $1.5 billion of growth CapEx the incremental returns we get from these opportunities is what's important. So that's why we're showing it here excluding intangibles.

I think one of the key takeaways - there are a number of key takeaways here - but the first one is when you look at all those bubbles that are above that dashed line that's where the vast majority of our growth CapEx is going. So you should be pleased with the fact that most of the CapEx is going into businesses that today are delivering very high incremental return on capital. In particular if you look at the European RPC business there and North American pallets, they're the two largest consumers of growth capital over the next four or five years. If we deliver on the growth and execution plans that we have at the moment that will result in a hell of a lot of shareholder wealth being created, particularly from those two businesses.

The other key takeaway is if you look to the top left of this chart there are a couple of businesses there that deliver incremental return on capital that's quite attractive. So whether it's automotive, Asia Pacific pallets or European pallets, very high incremental return on capital but the growth in the investment we're making in those businesses isn't as large as some of the others. That's in particular reflecting the fact that if you think about Asia Pacific or in some cases the Western European pallets business we're probably more opportunity constrained than we are elsewhere. So we'd love to invest more in those businesses but we don't today have the opportunities that we'd ultimately like to have.

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Automotive is a similar story. So as Jason was saying, it's dominated by European auto today, which is a fairly mature opportunity, and the growth areas that we're seeing particularly in North America or in Asia aren't yet at a scale where they're able to consume the amount of capital that we'd love to put into that. So we are thinking about how can reshape that business but the positive is that the higher returning businesses are getting the bulk of the capital.

Now there are two businesses below that dash line. I won't spend a lot of time talking about those. You've heard various people cover them today. What this chart doesn't do though is give you a sense for how we might see the value creation potential from those two businesses in the future. We're doing quite a lot of work on both aerospace and North American RPCs at the moment and we feel very good about the ability for the North American RPCs business in particularly to get to a point where as we continue to build out that network, build scale and deliver efficiencies, that it can be above that dash line and start to deliver very strong incremental value for the Group going forward.

Now moving from the positioning of the portfolio I'd like to spend a little bit of time just quickly talking about how we think about allocating capital across the group and particularly how we think about allocating capital to opportunities that have different investment horizons. Now this looks like a simple chart with three blobs on it but it is actually trying to convey quite a bit. So let me explain how we set this up. Firstly, the data up here is illustrative and although it's based off real Brambles' information it's important for you just to keep in mind that the data's not representative of any particular businesses.

Now I think what you might have in your printed version is some mislabelling on a couple of the bubbles. So if you look at the dark blue bubble on the right I think it might say organic expansion opportunity in new markets, it's actually existing markets. So if you can change that, that'd be great. The yellow one is the converse of that, it's probably labelled existing, it should actually read new.

What the chart shows is the NPV of investing today in those existing markets, new markets, all those acquisition opportunities. Across the X-axis it looks at the present value of the cash that we invest in those businesses or derive from those businesses to get them to maturity. Maturity in the sense of what we're showing you here is the point at which they're starting to deliver positive BVA.

On the Y-axis there we're talking about what we expect the return on capital to be once those businesses get to maturity.

So if we start at the far right with the dark blue blob which is that organic opportunity in existing businesses, clearly there's a couple of things here you can take away. One is the NPV opportunity from investing in existing established, more mature businesses is quite substantial relative to some of the others. Although we continue to invest to protect those businesses and continue to identify penetration opportunities or develop new platforms, because of the higher return on capital that we generally see in existing businesses, they're also very, very strong cash generators. So they consume quite a lot of CapEx if we can deploy it but they also generate a lot of cash as well.

If you move to the left of that the smaller, lighter blue blob is a depiction of an acquisition proxy. What we see with these acquisition opportunities is generally that the bubble is smaller because the NPV opportunity is less because we've gone and acquired them and we've had to pay good will. So despite the fact that they're still NPV accretive the opportunity for that NPV accretion is more than you'd normally see for an Organic growth opportunity.

The positive thing though is - and this is why - I'll touch on this in a moment as well - the positive thing about the acquisitions is you're actually de-risking them. So they're generally in markets that are proven, they've got customer acceptance and are generating cash on day one. So in some cases that's why we will elect to pursue an acquisition strategy and that's why on this chart you can see that the present value of the cash that comes out of that business post acquisition is positive.

Then finally if you look at the yellow blob on the left it's a depiction of what a new market organic entry would look like. Once again, when you get to maturity the NPV potential from a new market entry like that is quite substantial. The issue is that the gestation period to get to that point can take you quite a long time. As you can see with the negative cash flow at the bottom of that the investment to get those opportunities to a point where they're mature can also take quite a lot of money. So although it can create a lot of value if it is successful at that point in time the two issues are that it takes quite an amount of time and it can take 10 or 15 years as it had with a number of our businesses but the opportunity to create that is obviously available to us. To be fair that's what we're seeing with most of our pooling businesses.

So if you think back to the experience within the North American pallets business, we've been here for 25 years for the first 13-15 years we were cash flow negative. It's only more recently that we've started to generate returns that we think are acceptable and starting to generate positive cash flow out of the business. IFCO North America's another similar example that's on that same trajectory. So it continues to consume a lot of cash, it's not yet delivering the kinds of returns we think it can and should be we fully expect it will get there at some point in time.

The final slide I wanted to quickly touch on was using those same characterisations or organic growth in existing markets, acquisitions and then organic growth in new markets is just to give you a sense of how we see the spread of return on capital profile through the period to FY20.

So if we start on the left here - once again just to give you orientation on the chart, the Y-axis here is looking at seven year average ROCI and the dash line is essentially our BVA neutral position, so it's a 12% pre-tax weighted average cost of capital.

If you start at the left and look at organic growth in existing markets that's really the more established, more mature, predominantly pallets businesses. As you can see, they generate in most cases very, very healthy return on capital on a reported basis.

If we look at acquisitions you're starting to get a broader spread of return on capital. In some cases particularly with acquisitions that we've had in the portfolio for quite a period of time you get a very, very strong return on capital, as we've been able to grow out of the goodwill from the acquisition. But in some cases they're not yet at the point where they're BVA neutral, because we haven't yet got them to a scale or a level of efficiency where they're able to outgrow their goodwill.

So although the fact that we can get some pretty decent returns out of those businesses is pretty obvious, in some cases depending on where we are in the acquisition cycle you might see return on capital be a little bit below 12%.

Then if you look at the far right this is another way of depicting what I was talking about with a new market entry. You can get an opportunity to have a return on capital that's quite comparable to a more mature market, but by the same token depending on where you are in the lifecycle of those opportunities they could be a negative return on capital as we've seen with a couple of businesses, particularly with new market or new geographic entries right through to something that might be comparable to a more established pallets business. So that's really driven by where we stand in the lifecycle of those businesses.

So when we think about capital allocation I think it's fair to say that our focus is always going to be on what creates the most value for Brambles. Acquisitions clearly have a role to play in that. But when we think about acquisitions relative to the organic opportunity it's really with a focus on does the opportunity for an acquisition accelerate our market penetration? Does it bring capability that we either don't have today or don't think that we can create? Or does it de-risk a market or sectoral entry where there's already a proven player there that's generating cash on day one and we don't have to spend 10 to 15 years running through the investment profile and running the risks on that.

So when we think about how we pay good will it's with a view to making sure that we understand those opportunities that the acquisition brings relative to an organic case.

So I've said acquisition probably about 20 times there. I don't want you leaving the room thinking that this is kind of setting you up for a bunch of acquisitions that we're going to announce in the next six months, that's not the case whatsoever. Most of the things that we're looking at today are relatively small and they're predominantly focused either on the containers group or one or two sitting in the RPCs area. They're generally of a size similar to what we've done more recently with Wolfgang's group, so sub $50 million kind of size. But this was just to try and help you frame how we're thinking about either organic growth driven by the CapEx or acquisitions where they might fit with that.

So with that what we're going to do is actually invite all of the ELT up here. We know there are a lot of questions that you've probably got throughout the day that you might not have had a chance to answer and then we're either happy to answer your questions on what you've seen prior to that or we're happy to answer any questions you've got on what I've just gone through as well.

Unidentified Company Representative: There's no soundtrack for the whole group?

Unidentified Company Representative: No, no [unclear].

Tom Gorman: I'll just say - as the guys are grabbing a seat here I'll just say thank you very much again to all of you. It's been a pretty lengthy day and I know there's been a tonne of material shared with you. I'm sure for all of you it will take a little bit of time to absorb. But I also would like, while the whole group is here, to really say a big thank you not only to my team and to their team that pulled stuff together for this session but also particularly to the IR and comms team. So to James, Raluca, Louise, Cierra, thank you very much for the great job to put this whole day together and to all the presenters, and most specifically to our customers that made the time out of their very busy schedule to join us. We are indebted to you. We would be no business without you as customers and we're deeply grateful for your willingness to spend time with us.

I think I can keep us back on schedule. I'm not really going to make any wrap up comments at the moment. I thought what we would do though as Z said is we'll just jump right in to questions. The whole leadership team is here as well as the other presenters, who are still in the audience, but it's rare that we're all together. Actually there are two people missing from the leadership team, Jean Holley who's the CIO, she's making sure the systems are working and so far they are and Nick Smith, who's our HR Director. He's back in Sydney after a couple of weeks on the road.

But having said that we'll open for questions and anything is fair game.

Matt, Surprisingly.

Matt Spence: (Bank of America Merrill Lynch, Analyst) Yes. Zlatko, can I just start with the CapEx issue. So the $1.5 billion over four years and if we work that into the target return on invested capital for FY19, what sort of return to do you have to get off that $1.5 billion do you reckon to drag yourself up?

Zlatko Todorcevski: North of 20%.

Matt Spence: (Bank of America Merrill Lynch, Analyst) Well north of 20% did you say?

Tom Gorman: No, I don't think [it is]. But in fairness though you have a gigantic ACI. You already have a gigantic base of invested capital. So if we were to never to invest another single dollar in the US, which we're not going to do, but if we never did, I think what you heard the team say is that we're going to make that business better. So it's a combination of two things, it's getting a strong return on the marginal dollar invested but it's also taking the businesses we have today and continually improving those businesses.

I think Jason was very clear with his businesses, particularly in terms of leveraging overheads and things of that nature and I think when Kim presented I think it was very clear that there are things in the US - and we've demonstrated them here physically - the actions that we're going to take to improve the underlying margin structure of that business. So if you never had another dollar for growth the return on capital will be better in the US business.

Zlatko Todorcevski: Somebody asked me earlier this morning, they said do you think that the path to 20% is a combination of quantity or quality or what's the mix of that. I think it's fair to say it's probably equally both. As Tom was saying, we do expect the North American business to improve but we do see a lot of opportunities out there. If you think about that first chart that I spoke to, excluding goodwill the incremental return on capital from the portfolio is well in excess of 20% and some businesses are above that.

Matt Spence: (Bank of America Merrill Lynch, Analyst) So just the capital base that's generating the 16% return at the moment, what's that capital base?

Zlatko Todorcevski: It's about $6 billion. A little over $6 billion.

Matt Spence: (Bank of America Merrill Lynch, Analyst) So it still implies you've got to get [25] for the $1.5 billion and then draft the $6 billion up as well, doesn't it?

Zlatko Todorcevski: Yes.

Matt Spence: (Bank of America Merrill Lynch, Analyst) All right.

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Tom Gorman: While you're passing it around I mean the other comment I would make, if you look at - I mean I think we've tried to show this pretty clearly but if you look at what we've done over the last five years we've essentially doubled the size of the business. The top line has grown at about 12% annually over the five years. So from a revenue basis the business is almost twice as large as it was back in FY10. I think that we've also grew the ACI, as we said, by 14% during the period. So that's a big jump in average capital invested through that five year period from FY10. We actually showed the data on Zlatko's slide from FY11 but go back to FY10 you'll see that we really grew this business significantly and there are a couple of big chunks in there, notwithstanding the IFCO business was a big component of that growth.

I think what we're saying now is we have the structure of the businesses we like in big terms. We have the business we want today. Yes, we'll continue to do some small bolt-ons as Z indicated but what we really need to do is to get the performance out of the performance out of the businesses that we have. So the mix going forward, you'll get both a combination of growth, quality and quantity, whereas I think if you look over the last five years I think it was heavily skewed towards the quantity. We kept the quality quite consistent as I think we've shown quite well but we've put a lot of assets on the books. We don't see our ACI growing anywhere near that rate over the next five years. So if you're going to improve the return on capital you must get better performance out of the businesses that we have.

Andre Fromyhr: (CBA, Analyst) Still on returns - I'm just referencing that slide where you showed the spread of returns between different projects. In terms of the new markets there's a fair chunk that's below zero, as in for seven years you would expect to make losses. Can you give some context around what kind of projects you're willing to take such a long duration of weak performance?

Zlatko Todorcevski: Yes, I think Andre the best example is any kind of new market entry - any kind of new geographic expansion, that's kind of the profile we see. That's the profile we've seen historically as well. So if you think about entering a new market like Peru, that Pete spoke about earlier today, it takes you quite a bit of time before first of all you're profitable, second of all before you get to even a BVA neutral position at 12%, until you ultimately start delivering decent kinds of returns. So it's not unusual for us to take seven years to get to even a cash flow neutral position but it will be predominantly those kinds of businesses, new geographies or particularly new markets where we're creating a sectoral exposure that doesn't exist today.

Tom Gorman: I mean perhaps even very specifically we could give the example of Turkey probably, Pete, that - I know we entered Turkey four years ago, maybe almost five years ago now. I know the revenue has grown very well in that business. If you think about a gross margin of 30% or 40% just in the way of doing math and you can ramp up to call it $20 million of revenue relatively quickly, at 30% to 40% margin you have somewhere between $6 million and $8 million to contribute to your overheads.

Now we don't put a lot of overheads in on the incremental basis but you do put people on the ground. You put asset control people, you put customer service people, you put salespeople. So you put a bit of overhead into that business. That overhead ramps up a little bit ahead of revenue, as you would expect. So let's say after three or four years like in Turkey, on the margin from an income statement standpoint the business breaks even or makes a little bit of money but you've now put the capital in there, so your return on capital is zero. So it's value destructive from that perspective.

But I think what maybe we haven't articulated well enough is that if you look at the history of our business and why is Brambles this gem of a company. Because we have taken the moves and we have had the first mover advantage and we have moved quickly when we've had that first mover advantage. Because it's a network based business when you establish that network you can quickly extend the moat around the business. I think if we're worried about maximising return on capital in that first decade we're going to miss the opportunity to dig a very deep and wide moat. That's ultimately what we want to do with our businesses.

So frankly we worry a lot less about the return on capital in an emerging business. We focus quite a bit on the gross margin. You have to make sure that the structure of the business is correct but if the gross margin is good we're happy, in a way, to pour capital into that business and so we get the density of the network established, we build scale and we kind of extend the moat. I think that we've all seen how this works. I mean you look at our businesses around the world, we are in privileged positions. I mean there's this great Warren Buffett quote, I'll paraphrase more or less, but I plant the seeds for trees under whose shade I will never sit. That's essentially what you've got here. Some of these businesses take a heck of a long time to develop.

If you look at the US business people were bold enough to enter the US with some very good partners, no question about it. But we provided a value-added service, partners helped us build that business for 10, 13 years the thing was value destructive. But if you look at it now no business is impenetrable but it has some very high walls around it that if we continue to deliver value for our customers those businesses are very secure. That's really the mentality that I think all of us try to build to building out these businesses.

We've almost worn everyone out I think.

Paul Mason: (RBC Capital Markets, Analyst) Hi, Paul Mason from RBC. Just a question from Peter. On the automation that was discussed before in Europe, I just wanted to get an idea of what exactly you're going to automate within the service centres and what sort of equipment it is, is it like robots that just destroy the pallets or the robots to put them back together and stuff. Because I've had interactions with you guys in the past where you talk down what was going to be automated.

Peter Mackie: Yes look we've worked out - I think if you look at probably our most extreme example of automation is Erskine Park in Australia and probably a number of you have visited Erskine Park. I think we automated everything you could possibly automate and we had robot-stencilling pallets. Look, part of the challenge with that exercise is we tried to run a normal plant where everything was automated and we learnt a lot of lessons, one is that there's a lot of preventative maintenance to keep a whole fully automated plant going. So one of the things we got from Erskine Park was a lot of lessons around where does it make sense to automate and where you do automate where's your plan - preventative maintenance plan to keep the thing up and running really well.

Where we focus now is much more on where are the really highest areas, the most difficult cost repairs to get done and focused our development around those particular areas. So the very high gain areas for automation and the other ones we've generally left to say actually they're better off in a manual situation.

But the key part of automation is also - one is about the cost of repair but the other one is about the repeatability of those repairs. So you get repeatable quality from them. The other piece that we were talking today about the turnover of staff in the repair centres, it takes a while for a new member of staff to ramp up to the right level of capability and productivity, whereas with automation you teach it once and it carries on at that same level. So there are a number of things but we're much more selective about how we do automation now and it will focus on those more complex, highest cost repairs that one, we benefit from the cost but we also benefit from the repeatability.

Tom Gorman: I think if you come tomorrow and as you come on the site visits tomorrow, I think one of the unique things about this business - and I spend most of my life in automotive assembly plants, automotive assembly or any assembly that produces a new product is quite basic. You get standard inputs to assemble and then produce a standard output. Our business is quite unique on the pallet side because you get non-standard inputs randomly delivered to try to produce a standard output. So it's very, very hard to automate every aspect of that because on any given day you have no idea what's coming in the inbound door, meaning the type of damage that you're going to receive, where that damage is actually going to be on the asset. Actually you don't even know what the damage rate is going to be on any given day.

So it's very hard to put fixed automation in place when the inputs are random. I think what we've learnt - and Erskine Park I think we joked - we refer to it more as a science lab, it was a very interesting science project and we learnt a tonne from it but it was not a production ready facility. What we've done now, largely through sortation, we can sort those repairs that are the most difficult, that are the most labour intensive, that are the most costly, now when you sort those off and you build a buffer and you build an inventory of a standard repair it's easier to feed the automation. I think that operationally we've learnt that over the years and so automation can work in certain ways.

As Pete said, some of the solutions we've come up with in terms of stencilling we've actually learnt that stencilling and actually painting over time, some of the least automated approaches were actually the most efficient for us. So there was a view - I don't know, Pete, it's probably five, six, seven years ago there was this concept called the perfect plant. Those of you who have been around have probably heard it, it's the worst thing you could ever say. We no longer use the word perfect because nothing is perfect. But this idea of the perfect plant really was maximum amount of automation as far as I could tell. We were automating everything. In fact some of the automation didn't really work. So I think we got carried away with automation for automation's sake rather than the output at the other end.

I think to Peter's credit and to Carmelo's credit and to the whole operating team, I think that we've taken a good step back and have looked at where automation really is applicable and now it's paying dividends for us, significant dividends.

Paul Mason: (RBC Capital Markets, Analyst) Just one other question, it's more back to returns so maybe for Zlatko. Just in terms of acquisitions in say what we'd all here call an emerging market or Turkey which is developed but it's say a higher inflation environment, so do you still use the same 12% ROCI target for that sort of environment or is that a US dollar terms return?

Zlatko Todorcevski: Really 12% is what we use to think about BVA neutrality. So what we actually look at is for each different business that we operate in, for each different market we've got a different rate of return. So we differentiate emerging markets from the more mature markets and we differentiate specific businesses from others even in the same market.

Cameron Macdonald: (Deutsche Bank, Analyst) Thanks. Zlatko, just when you back solve the numbers there, the end of this $1.5 billion and the capital employed, 20%, you're looking at 40% to 50% increase in EBIT by the end of that program versus what you've guided to for FY16, how does this program and the profitability of the firm and the return profile alter the capital intensity of the business over that for or five year period or at the end of that period and then how do you - and what's your recommendations to the Board around capital structure or implications for capital structure and the appropriateness of the capital structure of the business?

Zlatko Todorcevski: Yes, so there's a lot in that Cam but look, I think...

Cameron Macdonald: (Deutsche Bank, Analyst)) Always like to keep you on your toes mate.

Zlatko Todorcevski: You do that very well. So capital intensive generally, so what we've said is FY16 is a spike in a growth CapEx predominantly because we see a lot of opportunities in the short term. But going forward as the guys in particular drive ongoing efficiencies, better asset utilisation, more turns and lower cycle time we're expecting to see better asset utilisation and lower capital intensity. You might recall about 18 months ago we spoke about the fact that we expect replacement CapEx as a percentage of total CapEx to decline. Now it's already declined but not because of efficiency, it's declined because we're spending more on growth. Now that will normalise as we get to a more normal level of growth CapEx. So we do expect lower capital intensity except for where we see opportunities for growth. That would be the only caveat I'd say.

In terms of capital structure for the board, look I think we periodically have these discussions with the board. I'd say there's nothing off limits. So we talk about everything from the credit rating, we're at BBB plus today, should it be A minus, should it be BBB, how does it impact our ability to raise funds through the cycle, what does that do for funding costs, what our dividend policy should be, should we declare it and pay in Aussie dollars or US dollars. So all of that gets discussed on a very regular basis. At this point in time I'd suggest that there won't be any changes. But that doesn't mean we ignore it and we don't raise it and talk about it with the Board, that happens fairly regularly.

Tom Gorman: Well I'll take that that I think we're ready to wrap up. So, again, just on behalf of all of my colleagues up here we can't thank you enough for the dedication today. I thought the energy was great in here, and I know it's a long day. Many of you just arrived, some of you as recently as this morning. So we're greatly appreciative of you. To the bankers here we greatly appreciate your support. I think there are a number of you that have really stepped up specifically for us in the last couple of years and even more recently when we've been doing some tricky things in Latin America, we appreciate your support.

To our shareholders we greatly appreciate your ongoing support of our Company. We know who we work for so that should never be misunderstood that we work for the owners and we try to do the best we can to deliver long-term value. For the analyst community here, those of you that pepper us with all these great questions, I think quite frankly I hate to admit this but you do make us better. You get us often to think about things in a different way, in a different light and that helps us drive our business to a better position.

So to all the constituents that are here, thanks very much. We are really looking forward to this evening so with that I'm going to pass over to James and he'll take care of the hygienics for the rest of the evening. Thank you very much, appreciate it.

James Hall: Thanks Tom. Yes, so just a reminder, 6:00pm in the hotel foyer downstairs and we'll be shuttling everyone to the restaurant. Those of you coming tomorrow, if I don't get a chance to speak to you again this evening that is, we need to be leaving at 8:30. We'll be gathering in the main entrance, in the main foyer of the hotel again, but we need to be leaving by 8:30, so I'd encourage everyone to be there and ready to get on the bus no later than 8:15. So thanks very much for that and see you all in a short while. Cheers.

End of Transcript