Event Transcript

Company: Brambles
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Start of Transcript

Stephen Johns: Good afternoon, ladies and gentlemen. My name is Stephen Johns, I'm your Chairman. It's my pleasure to welcome you today, and to declare the 2018 Brambles AGM open. There are copies of the Notice of Meeting and of the minutes from our last AGM in the registration area. With your agreement, I propose to take the Notice of Meeting as read. Thank you.

I'd now like to introduce your directors and senior executives. From my far left are Elizabeth Fagan, Brian Long, Chairman of the Audit Committee, Carolyn Kay, Nessa O'Sullivan, our Chief Financial Officer, and Graham Chipchase, our Chief Executive Officer. From my far right are George Zoghbi, Scott Perkins, Tahira Hassan, David Gosnell, Tony Froggatt, the Chairman of our Remuneration Committee, and Robert Gerrard, next to me here, our Group Company Secretary.

Elizabeth was appointed during the year and stands for election today, and Scott stands for re-election. Both have the unanimous and full support of their colleagues on the Board. Also with us today here in the front row are Sue Horlin and Eliza Penny, from our external auditors, PricewaterhouseCoopers. We'll be holding a poll on all the resolutions before this meeting, and I would now open the poll. Any shareholders leaving early may place their completed voting cards in the ballot boxes by the exit doors. I'll explain the voting procedure when we reach the formal part of the meeting.

I'll shortly deliver my Chairman's address. After I have spoken, I'll hand over to Graham Chipchase to provide his CEO address, Tony Froggatt will then review our remuneration policy, and after Tony's report I'll respond for the most frequently asked questions which we received from shareholders before today's meeting. I will then take questions from the floor before we move on to the formal items of business.

We're webcasting this meeting for the benefit of shareholders who could not attend in person, and will retain an archived version of that webcast on our website. Before I begin my formal address, I'd like to share with you a short video that demonstrates Brambles inherently sustainable business model. Brambles' share and reuse model maximises the use of pallets, crates and containers by continuously sharing and reusing these assets amongst an extensive and collaborative network.

In the video the circularity of our business model is symbolised by our employees in a variety of ways. Thank you.

[Video plays]

I will now commence my address, thank you.

Brambles operates major global logistic businesses servicing customers in more than 60 countries with around 610 million pallets, crates and containers, and supported by a network of over 850 service centres. We operate in a challenging environment characterised by increasing competitive intensity, ongoing inflationary pressures and a customer base navigating the challenges of a rapidly evolving retail landscape.

Despite these pressures, management's focus on executing against our strategic priorities delivered strong revenue growth and significant improvements in cash flow generation during the year. For FY18, in constant currency terms, our sales revenue was US$5.6 billion, up a healthy 6% on the previous year, and underlying profit of US$997 million was in line with the prior year. Cash flow from operations was US$892 million, US$300 million higher than in FY17.

While underlying profit was solid this year, it did not meet our longer-term growth expectations. Our management teams have identified and commenced implementing initiatives which we expect will deliver operating efficiencies and improved profitability over the medium term, particularly in our US pallets business.

The Board declared total dividends for the year of AUS$0.29 per share, in line with FY17, which are 30% franked.

In August, when we announced our results for the FY18 year, we also announced our intention to separate our IFCO RPC business through a demerger. However, to ensure optimal shareholder value is achieved, a sale of IFCO will also be evaluated through a dual track process. The Board and management believe that the separation of IFCO from Brambles will optimise shareholder outcomes and better position both businesses to realise a range of growth and value creating opportunities.

In reaching this decision we have undertaken a strategic review of our portfolio of businesses, which assessed the business and operating models, financial and return characteristics, growth outlook and associated capital requirements of both IFCO and CHEP and we reached the following conclusions.

Although both CHEP and IFCO operate pooling models, they are distinct businesses with different financial profiles and customer propositions. There is no meaningful operational overlap or customer related synergy between CHEP and IFCO that would be lost as a result of separation. IFCO's full value potential is unlikely to be realised under Brambles' current capital allocation strategy, which inherently prioritises the higher returning growth opportunities available in CHEP.

Following the proposed separation, Brambles will remain the clear global leader in platform pooling, a highly attractive industry with significant scope for sustained growth, substantial benefits from established scale, and highly attractive returns. Brambles will be positioned to continue generating strong revenue growth in its core markets, while also focusing on additional opportunities in emerging markets, first-and-last-mile solutions and BXB Digital's investment in technology and innovation through the supply chain.

IFCO is a strong business and the global leader in RPC pooling with a large addressable market, strong financial profile and clear opportunities to capitalise on growth prospects. It has benefited from substantial investments made under Brambles' ownership and is well positioned for its future as an independent company with a singular focus.

During the year we continued to focus strategically on our core businesses and, as a result, we divested CHEP Recycled, our white wood business in the US, and our 50% interest in the Hoover Ferguson Group Oil & Gas containers joint venture. The proceeds from these divestments, amounting to over US$250 million, are being used to fund growth and operational investments that will generate attractive shareholder returns in the medium to long-term, particularly our plant automation program in the United States.

The fundamentals of our businesses remain strong and our strategy is to focus on the core drivers of value. As a result, Brambles is well-positioned to face challenges and capitalise on opportunities. We are committed to leveraging our global scale and industry-leading expertise as we collaborate with customers to build the supply chains of the future.

The Company's strategic priorities are detailed in our Annual Report and our CEO, Graham Chipchase, will discuss them in his address.

We are very proud of our sustainability achievements during the year and our solid progress towards our 2020 sustainability goals. Starting with safety, the professionalism of our people and deeply-embedded safety culture have

helped us to continue to reduce workplace injuries, with an improvement of 29% from FY17.
We continue to leverage our industry-leading expertise to help customers reduce costs and to deliver on their own sustainability commitments. During the year, the use of our share and reuse business model saved 1.7 million trees and eliminated more than 2.6 million tonnes of carbon emissions, and 1.4 million tonnes of waste from supply chains around the world. We also collaborated with over 258 customers through our unique transport optimisation programs saving 62.7 million kilometres and over 53,700 tonnes of carbon emissions.

Looking to our own supply chain, we are pleased with our progress towards our 2020 target of 100% of global timber coming from certified sources. Certified sources are forests that are under the globally recognised management standards which prevent deforestation and include controls to protect biodiversity and human rights. In FY18, the percentage of timber from certified sources increased by 2.1 percentage points to 99.4%.

Our approach to sourcing certified sustainable wood places Brambles in the top 3% of companies addressing deforestation issues worldwide. Brambles' business model, sustainability program and strong approach to corporate governance are consistently recognised as best practice by leading ratings institutions that benchmark our performance in these areas against other globally listed companies. In FY18, Brambles continued to perform well amongst reputable investor sustainability surveys.

Further information on our performance against our 2020 sustainability goals is available on Brambles' website and in our 2018 Sustainability Review. Copies of this Review are also available in the foyer.

In light of my intention to step down as Chairman at the end of my current term, the Nominations Committee has formed a sub-committee, chaired by Tony Froggatt, to conduct the process to select candidates for the Board to consider as my successor. As part of that process an external professional search firm has been engaged. We are on track to select a successor and facilitate a smooth transition well in advance of my retirement in 2020.

As part of the ongoing Board renewal process, Elizabeth Fagan joined the Brambles Board as a non-executive director on 1 June 2018. Elizabeth who stands for election today, has extensive knowledge and experience in the international retail sector developed over a 30-year career. For the past 12 years, she has worked in senior executive positions at Boots UK & Ireland where most recently she held the position of managing director until her retirement from this role in September. She is now the Non-Executive Chairman of Boots UK & Ireland. Given the importance of the retail sector to Brambles, Elizabeth is an ideal addition to the Brambles Board.

Carolyn Kay will be retiring from the Board at today's AGM. Carolyn has served as a non-executive director for 12 years and, on behalf of the Board, I thank her for her valuable contribution to Brambles.

To conclude, I would like to thank our management team and all of our employees for their efforts and ongoing commitment during the year, and you, our shareholders, for your attendance at this year's AGM and for your ongoing support for Brambles.

Thank you very much.

Graham Chipchase: Thanks, Stephen. Good afternoon, ladies and gentlemen. At Brambles our purpose is to connect people with life's essentials, every day. As pioneers of the sharing economy, we have created one of the world's most sustainable logistics businesses through the share and reuse of our products.

We move goods to more people in more places than anyone else, and that's something we're very proud of because it allows us to make a real contribution to a smarter, more sustainable future. Our ambition is to be the global leader in platform pooling solutions with a number one market share in every region in which we operate. We aim to lead the

industry in customer service, innovation and sustainability, creating new areas of value by solving customer and retailer challenges in the supply chain.
Within this context, we are committed to striking the right balance between growing and investing in our business, and delivering superior shareholder returns over the long term.

Before addressing our results for FY18 and the first-quarter trading update for FY19, I believe it is important to outline the dynamic and challenging nature of the operating conditions we faced during FY18 and the first three months of FY19.

Since the beginning of FY18, we have experienced significant input-cost inflation, particularly in our US and European pallet businesses. At the same time, our customers are increasingly turning to us to deliver additional cost savings and efficiencies in their supply chains. We have also actively defended ourselves against increasing competition and, in most regions, have had to offset structurally higher network costs. This included investing in innovation and digital, enhancing our service offering, improving our asset quality, and delivering additional organisational and operational efficiencies.

Looking at our financial performance, in FY18 we delivered constant-currency sales revenue growth of 6% reflecting ongoing expansion with new and existing customers in key CHEP pallet and IFCO markets, as well as price realisation in US pallets, emerging markets and IFCO North America.

Underlying profit remained in line with the prior year despite inflationary cost pressures, direct cost challenges in CHEP Americas, and the adverse impact of RPC and automotive contract losses in CHEP Australia, which we announced to the market in 2016. These contract losses as well as lower margins in CHEP Americas also impacted our return on capital invested metric, which declined 0.9 percentage points to 16.1%.

Our cash flow generation improved significantly during the year as cash flow from operations increased by US$300.9 million, and we delivered positive free cash flow after dividends for the first time since FY15. Profit after tax from continuing operations was US$773.5 million, up 67% at constant currency, driven by the higher operating profit and a one-off, non-cash benefit to income tax expense of US$127.9 million associated with the lowering of the US tax rate from 35% to 21%, effective 1 January 2018.

Our balance sheet remains strong, as reflected in our two key financial ratios, net debt to EBITDA of 1.46 times and EBITDA interest cover of 15 times. Both metrics remain within the Company's policy and well within the levels required by our banking covenants. We continue to have significant headroom in our undrawn credit facilities and maintain our solid investment-grade rating of BBB+ from Standard & Poor's and Baa1 from Moody's. Our successful €500 million European medium-term note issue in October 2017 highlights our ability to access capital markets and issue long-term debt at attractive interest rates to high quality investors.

Turning to our trading update for the first quarter of the 2019 fiscal year. We delivered constant-currency sales revenue growth of 6%, which is in line with our expectation for annual mid-single digit revenue growth. Revenue momentum was strong across all segments as new and existing customers continue to recognise the benefits of our inherently sustainable share and reuse logistics solutions.

As previously outlined, we continue to face ongoing input-cost inflation and other cost pressures in major markets. During the quarter, we were able to offset approximately two-thirds of the inflationary cost increases through a number of pricing actions, which included surcharges, indexation and contractual price increases. In addition to pricing actions, we continue to look to our own operations for further opportunities to reduce costs.

Given the challenging cost environment and the combination of higher compensations and lower costs in first half of 2018, underlying profit in the first half of 2019 is expected to be broadly in line with the prior corresponding period, on

a constant-currency basis. We expected to return to constant-currency underlying profit growth in second half of 2019 as a result of increased pricing growth, a higher cost base in the prior comparative period and the delivery of cost efficiencies across the Group.
Notwithstanding the current cost environment, our global automation and procurement programs remain on track and are expected to deliver margin benefits over the medium term.

As you heard from Stephen, our decision to separate IFCO is in line with our strategic priorities. As separate entities, both Brambles and IFCO will have a greater focus on their distinct strategic agendas and increased flexibility to pursue growth opportunities. For shareholders, a separation provides focused investments in two world-class, global businesses that are being positioned for long-term success.

Our investor value proposition remains largely unchanged. Many of you will be familiar with our virtuous circle value proposition. We're able to achieve superior operational efficiencies thanks to our network advantage of scale, density and unrivalled expertise. These operational efficiencies generate cash flow, which we either reinvest in the business to fund growth, innovation and the development of our people, or we return to you, our shareholders.

Our aim is to deliver sustainable growth and returns well in excess of the cost of capital. This includes delivering through the cycle sales revenue growth in the mid-single digits; underlying profit growth in excess of sales revenue growth through the cycle; strong return on capital invested; and cash generation to fund growth, innovation and shareholder returns.

More than ever, our customers are being asked to meet changing patterns of demand. Consumers want things faster, cheaper and more targeted, while at the same time expecting businesses to shrink the environmental impact of their operations. As the leader in sustainable supply chains, we are uniquely positioned to help our customers navigate this evolving landscape by delivering innovative solutions that reduce both their costs and the environmental footprint.

Sustainability is a core part of our strategy and corporate culture, and it is essential to our purpose. It defines not just how we do things, but who we are. Stephen has shared some of the impressive results of our sustainability efforts, and we're very proud to be globally recognised as a leader in environmental, social and governance programs. This recognition includes being part of the Carbon Disclosure Project Forest A List, second place in the Dow Jones Sustainability Index for the commercial and professional services industry, and being a constituent of the FTSE4Good index for the fifth-consecutive year.

Delivering against our five strategic priorities is critical to maintaining our industry-leading position, remaining the partner of choice for customers, while delivering sustainable growth and attractive returns for shareholders over the long term.
In FY18, we strengthened our network advantage by funding growth in our core pooling businesses and innovation initiatives. By divesting CHEP Recycled and our interest in the HFG joint venture, we further focused our portfolio and generated proceeds to fund opportunities in high-returning businesses.

Through BXB Digital, we took promising steps towards identifying the role technology can play in improving our own operational efficiency and providing richer insights for our customers. We've also focused on attracting and developing the best people in our industry, and providing them with a culture of safety, agility and innovation.

Brambles is a strong business with a proven and inherently sustainable business model offering superior shareholder returns. The scale and density of our network means we can be faster and more responsive to our customers' changing needs. I'm proud to lead Brambles' high-performance team as we continue to deliver superior value for customers and investors over the longer term. Thank you.

Stephen Johns: Thank you, Graham. I'll now hand over to Tony Froggatt, Chairman of our Remuneration Committee to discuss our rem policy in more detail. Thanks, Tony.

Tony Froggatt: Thank you, Stephen. Good afternoon, ladies and gentlemen. Today I'll cover three topics, how Brambles executive remuneration is structured, the outcomes for FY18, including share vesting, and lastly, I'll provide you with an update on our employee share plan, MyShare. Before outlining the executive remuneration structure, I believe it's important to reiterate the key objectives our executive remuneration policy. These are to attract and retain the right talent, to reinforce business strategy, and to pay out for performance and results and creation of shareholder value. In keeping with these objectives, the Chairman and I met with proxy advisers in 2018 to seek feedback on Brambles remuneration policy. The feedback was that the changes made last year were appropriate and aligned to our business strategy. As a result, no changes are proposed for 2019.

Now turning to how executive pay at Brambles is structured. There are two categories of remuneration, fixed and at risk. As you can see more than 75% of executive remuneration is at risk, meaning it's only delivered if stretch targets are achieved. The pie chart shows how remuneration would break down in a year where maximum targets were met.

Fixed salary and benefits represent 24% of potential, at risk short-term incentives, or STIs, which are determined by a combination of financial results and achievement of personal objectives, represents 44% of potential. Half of the at risk STIs is given in cash, while the other half converts to shares which are deferred for two years. At risk long-term incentives, or LTIs represent 32% of potential, and comprise an award of performance shares with pay out conditional on meeting stretch results over three years.

As you can see from the slide, a large proportion of remuneration is at risk. Given the performance of Brambles during the last financial year, outcomes in both the STI and the LTI were substantially lower than in previous years.

I'll now run you through the remuneration outcomes for FY18. In 2018 across the executive leadership team, the average increase was 2.1%, ranging from zero to 3.3%. Our Company wide average for employees was 3%, short-term incentives for the majority of senior management were below target level. Similarly long-term incentives awarded in 2015 partially vested in 2018 at 25% with only the sales revenue growth to Brambles value added component vesting. The TSR component did not vest.

Consistent with these executive rewards and the Company's results, it was decided there would be no increase in the Chairman's fees or non-executive director fees on 1 July 2018. Looking forward, the Board has set stretch targets for the 2019 STI, and the FY19 to FY21 LTI targets have also been increased over FY18 to FY20 LTI targets. These have been set to challenge executives while ensuring that the targets do not in any way compromise investment in the future of the business.

Turning now to our employee share plan, MyShare. MyShare is a globally consistent employee share purchase program which encourages employees to purchase shares in their own company. Under the plan, employees are able to make a maximum annual post-tax contribution of AUS$5000 to purchase Brambles shares. If these acquired shares are held by the employee for two years, they are matched one to one by Brambles. Through MyShare our employees now own 3.73 million Brambles shares.

In conclusion, Brambles remuneration strategy continues to support the business strategy, and is designed to reward executives for the creation of shareholder value. Thank you, and I'll now hand back to Stephen.

Stephen Johns: Thank you, Tony. Ladies and gentlemen, before we move to the formal part of the meeting, I'll now answer questions from shareholders. First, I'd like to respond to the main topics and the questions raised by shareholders using the form which they used, which were provided to them with the Notice of Meeting.

We received a number of questions on our remuneration policy, and remuneration outcomes. I believe Tony has addressed these issues during his report. We also received a number of questions on our proposed divesture of IFCO and the Group strategy, which Graham and I have addressed in our speeches.

There were some questions about whether there was any intention to carry out share buybacks. The Board does monitor our capital structure on a regular basis, but we currently have no plans to carry out a buyback program. Finally we received a few questions regarding our sustainability goals, in particular relating to our strategies for climate and diversity. Details of our 2020 sustainability goals are available in the Sustainability Review for 2018, and copies of which are in the foyer.

As I mentioned earlier, Sue Horlin and Eliza Penny from PwC are in the audience and are available if any shareholder wishes to ask them any questions about the conduct of PricewaterhouseCoopers' audit, their audit report, the Company's accounting policies, or the auditors independence.

Ladies and gentlemen, I'll shortly take questions from the floor, but I thought before I did that, it would probably be appropriate to mention Jack Tilburn. Maybe not everybody read the reports in the media recently, but Jack passed away according to those reports about a month ago in late September. Jack was a very long-serving shareholder and a very loyal one to Brambles, and to many other companies. He took it upon himself in the way he thought appropriate to hold management and directors to account on issues that he thought were important. He certainly did his homework, he was an ex-school teacher, and in that capacity, he read the annual reports from cover to cover, and he certainly knew what he was talking about when he asked his questions.

He was a larger than life character, he enlivened our meetings, he made our meetings go for quite a long time as well, and I say very sincerely that we all miss him. He was really a very loyal shareholder.

Now moving on. I'll remind you that only shareholders or their proxies or company representatives are entitled to speak at this meeting. If you would like to ask a question, please approach the microphone, show your yellow voting card or green non-voting shareholder card and give the attendant your name. If you're unable to get to a microphone, then please raise your hand and an attendant will bring a microphone to you. To maximise the opportunity for all shareholders, I request that you only ask one question at a time.

The floor is now open for questions, microphone number one.

Stephen Johns: Welcome Mary, it's good to see you again.

Mary Curran: (Shareholder and Australian Shareholders Association) Thank you, yes, thank you. Good afternoon. My name is Mary Curran, I'm also a long-term shareholder, not 91 though, in my SMSF, and I'm a voluntary company monitor for the Australia Shareholders Association, ASA, where I represent 264 shareholders and 1.2 million shares.

Thanks to the Board and the executive team joining us from all over the globe and indeed for the presentation. I should add at this juncture I am still concerned about Mr Chipchase's second job, namely a non-executive director at AstraZeneca, as I believe he has a lot on his pallet.

I would like to hear some views on Brexit, will blue pallets back up in Britain and be fewer in France; Trump tariffs, will pallets flow more freely in the US; detente in Korea, will we will see pallets in Pyongyang.

My second question is given the divestment of IFCO, will the ROCE be rosier? Will the ROCE target of 20% be reinstated following its withdrawal in the 20 February 2017 release to the ASX? Too much at a time, or?

Stephen Johns: Well that was more than one question, but you're more than welcome to. But I do note that in his heyday Jack certainly asked more than one question as well. That's fine.

Mary Curran: (Shareholder and Australian Shareholders Association) I'm a shareholder as well.

Stephen Johns: You are, Mary, thank you very much and I'm sure we'll hear back from you a bit later on as well, because I know you have some questions on remuneration.

But firstly, can I say that Graham joined us a year and a half ago, and when he was appointed he was already a director of AstraZeneca. I know that certain people believe, and you seem to be amongst them, that a CEO or any senior executive of a large public company shouldn't have any outside interests, there are vastly different opinions to that, divided opinions. I personally think that we get enormous benefit from Graham's involvement and exposure to a major public company listed in the UK with global operations.

We benefit from that enormously, and so, yes, we have a very clear understanding, Graham, myself and Graham and the Board more generally, that if the obligations and responsibilities at AstraZeneca were in any way to impede on his ability to undertake his role here at Brambles as the CEO, he would step down from AstraZeneca. But that's not an issue today, and I don't think it'll become an issue. I think that it is a model that more companies might consider undertaking, and many do actually in allowing their senior executives to take outside roles.

I would point out that we are very, very fortunate in the past when David Gosnell joined our Board, he was the head of supply chain at Diageo, and they had a policy I believe, I believe I'm correct in saying that, that their senior executives should have one important outside directorship in order to broaden their horizons, broaden their experience and bring that experience or experiences back to their home company, in that case Diageo. We benefited from David coming onto our Board. We continue to benefit, and I think Diageo no doubt benefit from that experience.

I think that's an important thing, it's a major plus rather than a negative.

You asked a number of questions, which is a world political question or questions on Brexit, Trump, North Korea, and I don't know if you seriously want me to try and answer any of those because I'm not qualified to do so. All I can say is that we are very conscious of Brexit, our UK operations are significant. The management team under Graham and Mike Pooley who runs the European operations, have been working on particular plans in case there are unfortunate, or a no deal or part deal, or bad deal, whatever, however the Brexit might work out. But that's something which we'll just wait and see what happens. But we're certainly cognisant of the fact that it could be disruptive, obviously not just to Brambles' businesses but to businesses more generally in the UK.

The third question I think you asked was about IFCO and the return on capital, return on capital invested. Yes, that's an important point for us obviously. Mathematically as we had a 16.1% or 16.2% return on capital this year, and the IFCO number was 8% or thereabouts, which is not large, which is the smaller part of our business, it's about 15% of our revenue. But if IFCO were to not be part of our business, yes, the return on capital Group wide would naturally go up, and we're well aware of that, and we will ensure that those changes would be reflected in the way we calculate the matrix for our remuneration, our long-term remuneration.

Are there any other questions? Microphone two.

Ron McFell: (Shareholder) I'm a shareholder. Thank you, Mr Chairman, for those comments about Jack Tilburn, I'm sure we'll all be quite sad about it. I read about it in the *Financial Review*. Just about IFCO my question was, firstly I wasn't sure what IFCO stands for and what the company does. My other part of the question was will you be giving back a bit like the Wesfarmers and Coles, will the shareholders be given shares in IFCO companies, I wasn't quite clear that's the way you'll do it.

Stephen Johns: Let me clarify that, I'll clarify that for you.

Ron McFell: (Shareholder) You will. I noticed someone else asked a question on that, and also about the time when you think it might take place.

Stephen Johns: Right, thank you. Very good questions, and thank you very much. IFCO is the world leader, and I said in my address, in RPC pooling business. Now RPC is reusable plastic crates, and basically what those crates are used for, and Graham can elaborate if necessary, but basically what they're used for is transporting fresh produce from farmers and from the farm sector, to the supermarkets. We in the CHEP business by and large we have other things but mainly timber pallets, lumber pallets, which move manufactured goods from the manufacturers to the retailers. IFCO has RPC so reusable plastics crates, which are very good from a sustainability point of view, and they have lots and lots of benefits over and above their competitors, which are basically cardboard, but are moving fresh produce through the supply chain from the farms to the supermarkets.

That's their business, and they're very good at it, and they're by far the biggest in Europe. They've got an operation in America as well.

We have a dual track process, which I mentioned in my address, and what that means is that we have two alternatives which are going to be worked on side by side. The one alternative which is the principal one, is that we will demerge IFCO into a separate public company, which will be listed in Europe, but with also a listing here in Australia, that's the proposal, in very much the same way as Wesfarmers have done with Coles, except Coles is all Australian. But IFCO, being a European business, the primary listing will be in Europe.

The timetable for that is it will happen sometime in the middle of next year, to completed by the middle of next year. If that were the result that shareholders on a pro rata basis will receive shares in the new IFCO vehicle, so you'll have two shares, one in Brambles and one in IFCO.

The alternative on which we're also working is an outright sale, and we're marketing that at the moment, it's that program, or process has just started. If that were to be successful and that’s a decision which we as a Board will make, it'll depend on what price is offered to us. If the price is sufficiently attractive then we will get a lot of money into the Company and sharehold, and we will use that money for growing the CHEP business, but also, we'll make decisions about how some of that money is in all likelihood to be returned to shareholders.

Are there any other questions? I think just microphone two.

Noel Levy: (Shareholder) Noel Levy is the name, Mr Chairman. Question, is this on the financials at the moment or remuneration, what are you, are we supposed to give questions on both?

Stephen Johns: This series of questions is on the business as a whole, just generally. We haven’t yet got to the formal part of the business where we'll have the balance sheet and prof and loss account, the first item, and the second item is remuneration. But if you'd like to ask the question now, please do go ahead.

Noel Levy: (Shareholder) Well, I'll wait, but regarding the IFCO, seeing you've invested so much capital in it, at least from your statement, hopefully you will return the shares to us, so that we can benefit in the future from that capital that has been invested, rather than selling it to some other group who would benefit. So I'd like to see us retail shareholders getting it. Thank you, Mr Chairman. I'll ask the other questions later.

One of them, well, it’s in the financial section of the report, it's the trade payables, page 83, note 16. The amount that's less paid this year US$210 million less, so there should be US$210 million more cash really in the business because of that, because you didn't pay US$210 million. Because this cash is involved in the remuneration as well, to me it means that the cash part of the business can be changed or altered.

If you look at page 83, I haven't got a copy of the thing here now, but it shows what was payable in 2017 and 2018, and there's a difference of US$210 million.

Stephen Johns: Thank you, is that the question?

Noel Levy: (Shareholder) Yes, that's the one.

Stephen Johns: Thank you. Well, firstly let me say this, and if you need a more detailed explanation about the particular item on the balance sheet, maybe after the meeting you can talk to our Chief Financial Officer, Nessa O'Sullivan. But just in general terms it's a bit simplistic just to look at one item of the balance sheet to say that has generated all the cash. As I mentioned…

Noel Levy: (Shareholder) I realise that.

Stephen Johns: In my address I mentioned that this year we had US$300 million more cash flow than last year, which I'd say is a terrific result.

Noel Levy: (Shareholder) Seeing as there's US$210 million you didn't pay this year that you did pay in cash last year.

Stephen Johns: Not, but it's for a variety of reasons. It was for a variety of reasons.

Noel Levy: (Shareholder) What are the reasons? Why haven't you paid this year?

Stephen Johns: One of the reasons is that one of them, numerous reasons, is that we have - some of the trade payables were deferred, but having said that…

Noel Levy: (Shareholder) What's the reason for that?

Stephen Johns: Just payment terms more generally, and just the way - and also it doesn't necessarily reflect not paying, it also means that maybe we purchased more materials, and so therefore more was outstanding at the balance date. But I think that, if I can say that we had $300 million more cash flow which is an excellent result, we are investing over the next couple of years, as both I mentioned and so did Graham, that we spent about $250 million on an automation project in the US in order to improve the long-term results there. The money is being put to very good use, but there are a number of reasons, not just one, as to why we improved the cash flow. But that is a very good result, and we're very pleased with it.

Noel Levy: (Shareholder)Thank you.

Stephen Johns: But you did ask another question about IFCO and capital, I should probably address that as well. Yes, we did spend capital on improving the IFCO business over the eight or nine years that we've owned it. Our primary objective, as we announced, was to demerge the company that you as a shareholder and all the other shareholders can continue to own it, if you so wish. That's certainly one of the alternatives.

In order for us to sell it, we'd need to receive a very, very good offer where we would receive back all the capital we put in it, both at acquisition and subsequently, and then quite some above that. If we can achieve that and we think that's the right price, if we think - and after a lot of study and careful analysis, that is the better result for shareholders, then that is what we'll do. But it's totally hypothetical at this point because we're working on both exercises and we're doing it simultaneously.

Microphone number one.

Eric Chan: (Shareholder) Hello, good afternoon, Mr Chairman. With regards to this IFCO that you just mentioned that you intend to sell off, if we get a very good price, or shareholders receive some shares in all of it. Can I ask in the case of shareholders receiving some shares, do you anticipate it will be listed in ASX over the long term rather than the short term?

Stephen Johns: Yes, certainly. First of all, if it's demerged the way we intend, the way it's currently planned, you'll get the same number of shares in IFCO as you currently have in Brambles, or the same proportion. If you own 1% of Brambles, you'll own 1% of IFCO. We propose to have a dual listing, just to answer your question, yes, it'll be in Australia and the listing will be in Australia for a long time, that's certainly the intention. But we'll have two listings, one in Europe because it's a European business, but the same shares will be listed here in Australia.

Eric Chan: (Shareholder) Yes, but they can always sometime in the future, let's say three, four years, which I don't call a long term, they can say there is not much interest in Australia, they shut it down, and you can only buy or sell shares in Europe. Just like let's say [Optus] and some other companies as well, as I said I understand that.

Stephen Johns: Certainly that's not the intention, that's not the intention.

Eric Chan: (Shareholder) But can the Board elect for…

Stephen Johns: Well, there'll be a new Board of IFCO, this is the Board of Brambles and we'll continue as the Board of Brambles. There'll be a new Board of IFCO and their responsibility is obviously to the shareholders of IFCO at the time. I'm sure, as sure as I can be that they'll make the right decisions. But the intention is, and that's what we're saying in our documentation, should we go as far as the demerger, that there'll be an ongoing listing on the ASX.

Eric Chan: (Shareholder) In other words there's no assurance, if they should decide to shut it down in Australia…

Stephen Johns: That's the strongest assurance I can give you, but that's certainly the intention.

Eric Chan: (Shareholder) Yes, okay. Thank you.

Stephen Johns: Are there any other questions? Thank you, if not we'll now turn to the items of business. All voting items on the agenda will be proposed as ordinary resolutions, and I'll now explain the voting procedure. If you're entitled to vote you'll have been given a yellow voting card. As stated in the Notice of Meeting and on the shareholder voting form, I will be casting any discretionary proxy votes that have been given to me in favour of each of the items of business.

The proxy and direct voting position for each resolution will be shown on the screen behind me. At the conclusion of the meeting please place your completed voting cards in one of the ballot boxes that are located by the exit doors. We'll announce the poll results to the ASX later today and also post them on our website. Aaron Calder of Link Market Services has been appointed returning officer.

The first item of business is to consider and receive the Financial Report, Directors' Report and Auditors' Report for Brambles for the year ended 30 June 2018. Are there any questions on this item? No, there appear to be none.

I'll now move to the next item of business and this asks shareholders to adopt the remuneration report for Brambles for the year ended 30 June 2018, which is contained in the annual report. You've heard from Tony Froggatt on our policy and this included the principal issues raised by shareholders on this topic in advance of the AGM. Are there any other questions on the remuneration report from the floor? Microphone one.

Mary Curran: (Shareholder and Australian Shareholders Association) It's actually more a comment, and I was wondering, are you going to put the voting up?

Stephen Johns: We're going to put them up after the questions, and as you're about to vote.

Mary Curran: (Shareholder and Australian Shareholders Association) Okay. Well, I can't quite finish my comment, but I'll say what I've got to say and then you can take it from there. First of all, I'd like to thank Mr Froggatt who is the Chair of the Remuneration Committee, and no doubt aided by Mr Johns, for implementing some great changes. I applaud the clawback provisions, and the deferral of vesting on leaving the Company, meaning executives need to retain at least 50% of their minimum shareholder following their cessation of employment. Shame we didn't have that when Mr Gorman departed.

I would also like to add for those that did not have time to study the 22-page Remuneration Report and our readers of the *Financial Review*, that Mr Johns has not taken a pay cut, this is simply a currency deviation and Board remuneration has remained constant.

Every year we vote against the Brambles remuneration. Last year we were joined by many others and it was close to a strike. I'm imaging this year I'll be an outlier again, but seeing as how I can't look at the voting, I can't see how your percentages are looking. But nevertheless, simply put, the remuneration doesn't meet the ASA guidelines in various ways, long term incentives, LTI being only three years, we prefer a minimum of four, payment of long-term incentives is too much too quickly, additionally should total shareholder return be negative, LTI is still payable. I will be voting my shares and the undirected shares against the motion. Thank you.

Stephen Johns: Well, Mary, thank you, and your decision to vote against the rem report, or ASA's decision, is not totally a surprise to us, as you know, but it is disappointing because we wish that you would. As you did, you recognised many very good qualities and points, and elements within our rem policy more generally.

I think at this point we choose to disagree on the LTI, the payout period of three years that we've adopted for quite a few years now is certainly consistent with a lot of market practice. I would point out, and maybe Tony would like to add to this, to what I'm about to say, is that every year we carry out an extensive review of our remuneration arrangements, we do this through an external consultant, Ernst & Young. We look at best practice in Australia, and elsewhere, and what our peer group are doing. Last year as a result of that in 2017, we did make many changes, some of which you alluded to and talk about, there are some other changes as well, which are also well received in the market by investors both large and small.

But this year in March or thereabouts, earlier this year, we conducted an extensive review, and we came to the conclusion, or our adviser came to the conclusion, that our policies were outstanding and that we're certainly very much in line with market practice, and so we chose not to make any changes this year.

I'm sorry, and I regret the fact that the ASA continues to vote against us, against the rem report, but hopefully some time in the future we might convince you to do otherwise.

As regards you mentioned just directors' fees and the Chairman's fees, I'd just say there more generally because they're paid in Australian dollars, and as you know, I think you know very well, what's reflected in the accounts is US dollars, so our fees will change based on the exchange rate. But there has been no change to the fees paid now for two years. We've also agreed at the Board level not to have any change to directors' fees for the next year as well, but thank you.

Are there any other questions on remuneration? No. Okay, well, thank you very much, if there are no other questions. The resolution, the direct voting and proxy position, Mary, are now on the screen, so I'd now ask shareholders to mark your voting cards for item number two. Maybe you could just put the proxy numbers back on the screen, thank you. Are we all okay with that? Thank you.

The next item of business is the election of Elizabeth Fagan as a director. Elizabeth's election is item three as set out in your Notice of Meeting. Elizabeth was appointed as a director, as I said previously, on 1 June 2018 and as this is the first shareholders meeting since her appointment she now stands for election.

Her biographical details are set out in both the Notice of Meeting and the Annual Report, and her election is unanimously supported by her fellow directors. I'd now invite Elizabeth to speak briefly on her election.

Elizabeth Fagan: Thank you, Stephen. Good afternoon, ladies and gentlemen. I'm very pleased to be sitting here in front of you standing for election today as director of Brambles. Currently, as Stephen says, I am Senior Vice President and non-executive chair of Boots, the leading pharmacy led health and beauty retailer in the UK. Boots is part of Walgreens Boots Alliance, the largest retail pharmacy, health and daily living destination across the US and Europe with presence in more than 25 countries. Prior to taking on the chair role in September of this year, again as Stephen said, I was the Managing Director of Boots UK & Ireland, and I've been with Boots for the past 12 years in marketing and general management executive roles, both in the UK and across our international businesses, which included initiating marketing through our digital channels.

This has been my second period of working with Boots, I started my career with them some 30 years ago in commercial supply and marketing roles. Between these two periods with Boots, I spent 12 years in senior executive roles in marketing and general management with Dixons Group, a leading electronics and technology retailer in UK and Europe. I'm also on the Board of the Office for Students, the UK Government's higher education regulator. In August of this year I was appointed chair of the local Enterprise Partnership for the region of Derbyshire and Nottinghamshire, which is where Boots is headquartered in the UK. This organisation's worked with businesses, local authorities, skills and training providers and community and voluntary sector organisations to grow local regional economy.

If elected I will bring my customer marketing, retail, and wider business experience within the UK and international markets to this Board to support the executive to continue to grow and develop the strong business that Brambles is. Thank you.

Stephen Johns: Thank you, Elizabeth. I can only say that as Chairman and on behalf of the other directors on the Board, we are really delighted to have Elizabeth join us. Are there any questions on Elizabeth's election to the Board? Appear to be none. Okay, thank you.

The resolution and direct vote and proxy position are now on the screen, and I'd ask you to please now mark your voting card for item number three.

I think we're done with that. Thank you.

The next item of business is the re-election of Scott Perkins as a director. Scott's re-election is item four as set out in your Notice of Meeting. His biographical details are set out in both the Notice of Meeting, and the Annual Report. Scott has been subject to an assessment process by the Board and his re-election is unanimously supported by his fellow directors. I now invite Scott to speak briefly in his re-election.

Scott Perkins: Thank you, Stephen. Good afternoon, ladies and gentlemen and fellow shareholders. It is both a privilege and a responsibility to serve you as a non-executive director of Brambles. Since I joined the Board three years ago I've been part of a team alongside my fellow directors and our management team that has been working hard to improve the underlying health and year-on-year performance of Brambles. This journey has called upon my professional experience as a corporate adviser, and the experience I've garnered as a company director in other places. Matters of strategy, the composition of our portfolio, and the allocation of capital have been consistently in focus.

Looking ahead we know that we can play an even more vital role in our customer supply chains. We benefit from a tremendous legacy in terms of the strength of our shared business model, our established based of customers, and the network that supports our business. The transition to offering those customers a more digitally enabled and informed set of solutions is one that holds considerably promise. If I am re-elected I will continue to work hard to realise the full potential of Brambles for us all. I thank you for your support.

Stephen Johns: Thank you, Scott. I can also say on behalf of his fellow directors that Scott in his three and a half odd years that he's been on the Board has made a very significant contribution to Board discussions and deliberations. Hence, he has the unanimous support of his colleagues.

Are there any questions? No questions. The resolution and the direct vote and proxy position are now on the screen. I'd ask you to please mark your voting card for item number four.

The next item of business are shareholders to approve the participation by Graham Chipchase until 2019 Annual General Meeting, that's next year, in the performance share plan for the purpose of ASX Listing Rule 10.14. Are there any questions? Yes, I think there's a question here. Microphone two.

Noel Levy: (Shareholder) Thank you, Mr Chairman. Just a few questions. First of all, well, a few complaints first of all, the relative total shareholder return is [hurdle] for getting 50% of ANTIs. That doesn't really align with the shareholders because the shareholders, or the share price and the dividends could drop, but the Chief Executive could still get his 50% at least of his remuneration. Because of that I think that should be absolute total shareholder return. If there were options, fair enough, but they're not, they're for free. That's the first.

The second thing is, you've got three [hurdles]. You've got a target - no, threshold, target, and maximum. In the table it says if they achieve the threshold they get 35% of each day's salary, then if he gets the target he gets 60%, and if he gets the maximum he gets 90% of his base salary. But then underneath it says the maximum he can get is 130% of his or her base salary. If he gets the maximum from that little table there, he only gets 90% but in fact when does he get 130% of his base salary.

Stephen Johns: Right. Is that the question or the questions?

Noel Levy: (Shareholder) Well, just mentioning one other thing, which I wasn't aware of that he's only a part-time senior executive, or chief executive.

Stephen Johns: I can assure you on that last point that Mr Chipchase is very much full-time, full-time plus.

Noel Levy: (Shareholder) Yes, I'm concerned because I've got Virgin shares as well, and we've also got a part-time chief executive there now.

Stephen Johns: Well, this is a Brambles meeting and I'm not commenting on Virgin and what that, but I did address the issue before that Mary raised about Mr Chipchase's involvement as a director of AstraZeneca. I see that as a really major benefit for us in terms of his experience, knowledge, and exposure to the broader marketplace. As I said earlier, I also make the point that if in any way his involvement there were to impinge on his ability to actually run his, be effective in his role here, or carry out his role properly here, then that's another issue. But that's not the case, and I think we get a lot of benefit out of that.

But you raised a couple of other points if I could come back to them before I forget them altogether. Are you okay if I go back to your previous…

Noel Levy: (Shareholder) Yes.

Stephen Johns: Your point about - I think your point was about relative TSR, this is absolute TSR which Mary has also raised and has raised over the years with us. When we did our annual review of the remuneration arrangements with our consultant and adviser, certainly we looked at that yet again, that's been a matter that we always do review. There are different views about relative versus absolute TSR. The argument for relative is that you could have a terrible situation like the financial crisis and management do a fabulous job in running a business in bad or difficult conditions, so the results could have been much worse if management didn't do a good job.

Noel Levy: (Shareholder) But they do get a fixed annual remuneration, but if there's a financial crisis we suffer so they should have to suffer.

Stephen Johns: I think as we said before, if I could address that point, that 24% of his remuneration is fixed and 76% is at risk. This is part of the at risk, and it's quite possible, or even likely, in difficult situations that he'll get - he would get or likely to get a much smaller part of that, or maybe nothing at all. But the point you're raising, which is a very good point, and that is raised by a number of people around town, and I think if you did a review of all of the major public companies, some have relative and some have fixed, have absolute TSR. There's not just one answer which is accepted by everybody, but our view is that in difficult situations, we would actually expect and hope that our management team would do a fabulous job in minimising the difficulties, and therefore might be rewarded in those circumstances.

I think the 90% versus 130% you mentioned, 90% is the issue in the short-term incentive plan, whereas 130% is a different thing, it's the long-term incentive plan.

Tony Froggatt: That's at maximum.

Stephen Johns: That's at the maximum position. Tony, do you want to…

Tony Froggatt: Sorry, just breaking down, just to add to Stephen's comments. For the STI if he achieves target he gets 60% of his base salary, if he maxes he gets 90% of his base salary. As Stephen said on the short-term incentive which is over the course of a year, that means that he has done extremely well in terms of delivering for shareholders. The LTI of 130% of base salary is if he achieves over a three-year period the maximum long-term incentive, which is a real challenge. If that is the case again, then the organisation over those three years is doing very well.

Noel Levy: (Shareholder) Right, thank you.

Stephen Johns: If I could just add to the clarity that Tony provided in that answer, is that the whole intention is to align the interests of our shareholders with the executives, and whether it be Graham or any of his other executives, in doing so that we have a large proportion of his pay at risk, and a much smaller proportion being the money he's absolutely guaranteed to get through his base pay.

Are there any other questions? Okay, thank you. I'll move on. The resolution and the direct voting and proxy position are now on the screen, and I'd ask you to mark your voting card for item number five.

Are we all done with marking our voting cards? Well, thank you, I think we are.

The next item of business which I think is our last item, asks shareholders to approve the participation by Nessa O'Sullivan until 2019 Annual General Meeting, in the performance share plan for the purpose of ASX Listing Rule 10.14. Are there any questions? Okay, if there are none, thank you. The resolution and the direct voting and proxy position are now on the screen behind me. Please now mark your voting card for item number six.

Thank you. I'll now also ask you to remember placing your voting cards in the boxes beside the exits. The poll will remain open for another 10 minutes and when the poll closes you will be notified on the screen behind me.

We'll announce the results of the poll to the ASX later today. Ladies and gentlemen, thank you for your attendance today. I'll remind you of the Sustainability Review which is this document here, copies are available in the foyer, and I'd really recommend that you get a copy, because it tells a very, very compelling and important story for the Company.

I now declare the AGM closed, and I invite you to join us outside for tea and coffee. Thank you very much, ladies and gentlemen.

End of Transcript