

Company: Brambles Limited
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Start of Transcript

Operator: Thank you for standing by and welcome to the Brambles Limited Plastic Pallet Decision conference call. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number 1 on your telephone keypad. I would now like to hand the conference over to Mr Graham Chipchase, Chief Executive Officer. Please go ahead.

Graham Chipchase: Thank you for joining us today and welcome to the Brambles briefing to discuss our decision on Costco plastic pallets. We appreciate your time today at such short notice and we know for many of you this briefing is taking place after market close so thank you for being so accommodating.

I will start today's briefing by providing you with a short overview of the strategic rationale and financial implications of our decision today after which there will be time for Q&A with myself and Nessa O'Sullivan, our CFO. As you will have seen from the announcement lodged with the ASX, Brambles has made the decision not to participate in the potential transition to plastic pallets in Costco's US supply chain. Our decision today should reassure shareholders that we are disciplined in the allocation of capital and will only pursue investment which we believe to be in the best interests of shareholders and long-term sustainability of the Company.

In the three years since Costco announced its intention to migrate to plastic pallets, global supply chains have faced unprecedented disruptions with broad-based shortages and high levels of cost inflation across critical inputs. In the case of our plastic pallet trials with Costco, the cost to serve has been impacted by cost increases. A Costco-spec plastic pallet is now four times the cost of a wooden pallet, 50% higher than in September 2021 when we presented the economics at our investor day.

As the largest pallet pooler in the North American market and the global leader in plastic pallets, we have a unique perspective and strong capabilities which we have leveraged to conduct an extensive trial to assess the viability of investment in a plastic pallet pool for Costco. The key focus of our trial was to identify and test a more efficient business model, including a fully serialised pool to drive operating efficiencies in the plastic pallet pool for Costco's supply chain. This would allow us to reduce the level of price premium required to make the plastic pallet economic to work for us, our customers, and Costco. The model leverages Costco's network to sort and issue pallets directly to manufacturers, which enables further operating and transport efficiencies across the supply chain.

As part of the trial, we developed a high-quality plastic pallet that is fully compliant with Costco and US regulations, including critical US fire regulation. The unique pallet design is both identifiable using RFID technology to support asset control and has a modular design that allows for faster and easier repairs which reduces the overall cost of running the pool. Despite the material efficiencies identified and developed with Costco and our customers, the price premium and contractual terms required to deliver on our return objectives were at a level our customers and Costco were unwilling to accept.

We have been transparent in our dialogue with Costco that should an investment in plastic pallets not make economic sense we would not proceed. It is our understanding that Costco is continuing to assess alternatives to transition the supply chain to plastic pallets but the likelihood, timing, and magnitude of any such transition is currently unknown. Costco remains a highly valued retail partner in North America. We will continue to work closely with them and our customers. We are committed to supporting them through any transition should it occur.

Our business is prepared for this scenario. While there will be some revenue and profit implications associated with the transition, the strong underlying demand for our pallets from both existing and new customers and the investments we are making in automation and other efficiencies are expected to enable us to effectively manage these changes in network dynamics.

While the specifics of any transition to plastic pallets in Costco's supply chain remain uncertain, we can reasonably make the following assumptions. Firstly, any conversion to plastic pallets is likely to be phased over multiple years. It would also be reasonable to think that no pooler has enough plastic pallets that fully comply with Costco's needs and US fire regulations to deploy into the Costco lanes at scale immediately or in the short term.

Secondly, we would expect any reduction in our current volumes with Costco would be replaced by new business wins of which the current pipeline is very strong. Over the longer term, with approximately 50% of the US market currently addressable, there are material opportunities for growth in the US. Any pallets released from the Costco system would be redeployed to support growth with existing and new customers, and this is against a backdrop of material levels of pent-up demand given pallet availability constraints in the US market over the past 12 months.

Finally, we will seek to mitigate any short-term transition costs such as pallet relocation costs and inefficiencies in the wooden pallet pool due to the loss of Costco volume through network efficiency and optimisation initiatives.

I would like to close today by saying that while we have not proceeded with the rollout of plastic pallets across Costco's supply chain, our US business is well positioned for the future and we continue to have a strong relationship with Costco. At a macro level, the current operating conditions are leading to high demand for wooden pallets while supply is limited. These dynamics are not expected to change in the near term and therefore we do not anticipate a shortage of demand for our pallets in the United States.

Over the medium to long term, we are also confident on delivering on our Shaping our Future ambitions. The program, as outlined to investors in September, is progressing well and we believe it will transform the business to increase our competitive advantage, improve customer service, and deliver strong shareholder returns. We continue to expect the improvement in underlying profit between FY21 and FY25 to be weight to the CHEP Americas segment.

Thank you, and I will now hand over to the operator for Q&A. Just to remind you that we are in a blackout period so can only answer questions relating to this specific decision.

Operator: Thank you. If you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star 2. If you are on a speakerphone please pick up the handset to ask your question.

Your first question comes from Matt Ryan from Barrenjoey. Please go ahead.

Matt Ryan: (Barrenjoey, Analyst) Thank you. Good evening or good morning, Graham. Just hoping if you could share any findings from the trial and how they came in relative to your expectations. Obviously, the pricing has come in below in terms of the acceptance of that pricing but what did the loss rates and damage rates and all the other key metrics, how did they perform?

Graham Chipchase: I think what we found, Matt, was the efficient operating model that we were expecting has been developed and I think we proved it out. If we go back to the key driver really is the unit cost of the pallet and ensuring that the commercial terms that we needed to get to the return expectations would be accepted by our customers and Costco. Everything else, we were seeing efficiencies within the network from things like transport savings because of the way we have the movements between the TPM in Costco's system and avoiding the need to go to our service centres, lower damage rates, and lower loss rates because of the technology enablement, and that all seemed to be

working pretty well. Again, it wasn't a huge amount of data and that's why I think we have to be reasonably careful about our assumptions and be cautious, but the basic operating model was working really well.

Matt Ryan: (Barrenjoey, Analyst) Thank you. You made a few reference just to the new business wins that might be available. Just hoping if you could talk a little bit about that. I'm not sure whether you know about the quantum of what might be out there but maybe if you could just talk to that. Also, I guess how much of this pent-up demand for your products is related to the really high whitewood prices at the moment, or perhaps just the shortage of pallets more generally.

Graham Chipchase: Yes. I think we would refer back to the macro trends because to say it's going to be X or Y in the short term is difficult because we don't know the pace of any change, of any potential change of converting our pool into plastic from Costco's perspective. If you look back, because we've always had a 0% to 2% or 3% per annum conversion from whitewood into pooled, and we haven't seen that for the last 12 months, even a bit longer than that, 18 months, because of this shortage of pallets. '

So, we have been focusing on keeping our existing customers supplied as best we can rather than going after new business wins but we do believe that within that SME community there is a demand for switch. Whether it's driven by very high whitewood prices or not, that's always a debatable point and I think you know my views which are it's more driven by the need for the SMEs to sell their products across a broader geographic spread and therefore they need to go into the modern supply chain and have a pallet which will survive the rigors of lots of forklift truck handling and storage in high-bay warehouses.

At the same time, they don't want to have to go and collect it from one side of the US to the other because that's not their job and that's why they go to pooled. But yes, you're right, with ultra-high whitewood pricing the people were sitting on the fence and I'm sure they would be more inclined to come into a pooled solution, but at the moment the issue is there aren't any pallets. So, we are doing our best to service existing demand, but we do think that that is there once those supply and demand issues ease off.

Matt Ryan: (Barrenjoey, Analyst) Thanks, Graham. I appreciate it.

Graham Chipchase: Thanks, Matt.

Operator: Thank you. Your next question comes from Niraj Shah from Goldman Sachs. Please go ahead.

Niraj Shah: (Goldman Sachs, Analyst) Hi, Graham. Hi, Nessa. Hope you can hear me okay.

Nessa O'Sullivan: Yes, thanks.

Graham Chipchase: Yes, thanks.

Niraj Shah: (Goldman Sachs, Analyst) Just a couple from me. One, just to be clear and apologies if I've missed it, have you now ceased all plastic pallet trials with Costco?

Graham Chipchase: What we've done is we've said we're not going to proceed with the rollout but we have got assets obviously which have been deployed through the trial and rather than write them off and have to try and find another use for them, we are going to continue to let them flow through the system with those customers where we're getting premium pricing.

The reason for doing that is (a) we're keeping customers satisfied and particular in a period of shortage of wooden pallets generally, but it will help us build our capabilities around operating a fully digitised pool which we - that capability

is something we need to build up for building up a more serialised wooden pool eventually, so it's worth doing it. As I said, we're going to get good returns from that particular pool anyway. Is there anything you want to add, Nessa?

Nessa O'Sullivan: Yes, and the only thing is just putting in context, as we've been investing in this over three years, in total we've invested under \$20 million. What we're talking about here is a relatively small investment that can help us with our wider wooden pool as well.

Niraj Shah: (Goldman Sachs, Analyst) Sure. That makes sense. Secondly, Graham, you kind of touched on this but I just want to be clear, is there any change in messaging from Costco to you on their determination to transition their pool over time?

Graham Chipchase: No, it's been very, very constant in terms of their desire to do it, but again no definite timeframe and our view is it's going to take a while. There's been no change in messaging from them.

Niraj Shah: (Goldman Sachs, Analyst) Sure, okay. Sorry, just the last one from me, and I'm not sure how much detail you want to go into on this but I'm just keen to understand how close the decision was. Because you guys were clearly extracting a lot of efficiencies in this operating model but obviously the plastic pallet cost has gone against you in quite a dramatic way. I'm just keen to understand I guess the sensitivities around those variables.

Nessa O'Sullivan: The outcomes from the trial were very conclusive. As we discussed at investor day, if we'd been able to get within a reasonable range I'm sure we would have continued to try and work with all the participants across the supply chain to be able to reach our target objectives. We highlighted in this environment particularly inflation is high and a key input is the cost of the pallet.

When you see the cost now being - it used to be historically running at three times the cost of a wooden pallet; now it's around four times the cost of a wooden pallet. The commercial terms that our customers would have to take on, including the premium pricing, were just at a level that it wasn't acceptable and it wasn't within a close enough range that we would have said we believe we should continue with the trials. So, it was pretty conclusive.

Niraj Shah: (Goldman Sachs, Analyst) Got. Thank you, I'll leave it there.

Graham Chipchase: Thanks a lot.

Operator: Thank you. Your next question comes from Anthony Moulder from Jefferies. Please go ahead.

Anthony Moulder: (Jefferies, Analyst) Good evening and good morning, all. If I could start with the capital cost of the plastic pallet obviously up 50% since September. Were there any discussions with Costco about delaying this as a decision until such time as maybe pricing came back into a range?

Nessa O'Sullivan: For us, Anthony, it wasn't just about...

Anthony Moulder: (Jefferies, Analyst) Hello?

Operator: Pardon me, this is the operator. We seem to have lost audio from the speaker line. Please hold while we get them reconnected.

[Technical difficulty]

Operator: Pardon me. We now have the speakers back on the line.

Graham Chipchase: Anthony, it really wasn't because it was you that we dropped off. We had some...

[Over speaking]

Anthony Moulder: (Jefferies, Analyst) I didn't touch anything.

Nessa O'Sullivan: Yes, sorry about that. Anthony, do you want to repeat your question so that everybody on the line can understand what your question was and we'll get right back to answering it?

Anthony Moulder: (Jefferies, Analyst) Sure. I guess given that the increased cost of the plastic pallets seemed to be a large proportion of this decision not to proceed, I expect pricing was another component of that, but was there ever a discussion with Costco to say not at this price point but if Russia pulls out Ukraine, if the US goes into a recession then the price point of the plastic pallets coming down and if it came back to within this kind of a range or back where it was in September '21, then we're more likely to proceed, was there a decision or a conversation about delaying this decision further?

Nessa O'Sullivan: Anthony, our decision was more around what are all the factors that we needed to get in place to make this viable economically, which for us was about reaching our target objectives in terms of the returns that we had set as our target. That didn't just involve the input cost of the pallet although that is a material input; it was also about the commercial terms we needed to get acceptance of, which was from our own customers as well as from Costco's, largely relating to asset accountability but also some other terms related to volatility in input costs and other costs to serve over time.

There was a range of factors, and as you can imagine, we tried very hard to see within a range could this make sense, and for the foreseeable future we'd have to say as we look out, we can't see that the costs would change materially or that we would get acceptance of the commercial terms that we needed for the foreseeable future. I guess in the very, very distant future if everything was to change materially, we are a leading pooler of plastic pallets globally, we do it successfully in other markets, and it's all about getting the right price and the right commercial terms in place to make it viable and we just weren't able to do it and we weren't close enough to have warranted ongoing discussions and negotiations about the pricing and terms.

Anthony Moulder: (Jefferies, Analyst) Right, okay. Obviously, the counterfactual on this is that you proceed with greater growth in the US market. I guess that 50% of unpalletised or non-pooled pallet movements in the US for fast-moving consumer goods has always been there as an opportunity. Why now? What gives you the confidence that you can now pursue a growth option into that other 50% of the market that's remained that size for a decade?

Nessa O'Sullivan: Anthony, if you look back historically over the results that we've published, and we always show the US making up, at least for the last six years or so since Graham and I have been around, we always show that chart which shows exactly where our volume comes from, what's organic and what's new business wins. The new wins, the net new wins have historically been at that 0% to 2% range that Graham referenced and that has come from that space.

As the overall market has grown, while we look at overall share, often the competitors have continued to get growth from there but it's fair to say because there are no pallets available that there is demand that you would have on an annual basis that comes from that but it's historically always been part of our growth profile that we haven't been able to service and we made the decision not to service it. With the lack and scarcity of pallets, our priority has to be to service our existing customers.

Anthony Moulder: (Jefferies, Analyst) Agreed. Does that mean that it's not only white pallet customers but it's also PECO customers that you would see that growth option from?

Nessa O'Sullivan: No. We think that there's enough opportunity still in the unpooled part of the market, and in fact, disruptions to supply chains like this only seek to highlight to a whole range of people who were in the unpooled market

the advantages of having a pooled pallet and dealing with all the complexities of supply. Also, as sustainability becomes more and more important to end consumers as well, the fact that we have those credentials operating a circular business model makes our model more and more attractive over time. I think they are all key factors that really you should think about in terms of growth.

Anthony Moulder: (Jefferies, Analyst) Sure. If I look at the whole of the market, the Costco channel, supply chain incredibly quick, very high velocity, and you're now converting down to a part of the market that hasn't seen the benefits of pooled pallets conceivably, that is they are turning it at a rate lower than your average outside of Costco. So, there is a margin and a return impact in moving down into that part of the market. Would you agree with that?

Nessa O'Sullivan: There's a couple of comments that I'd make about that I think are really important to note. First of all, as we look at - different customers have different speeds of cycle time, and so if you're a customer who has flows and part of their flows that are particularly fast, generally within their portfolio they also have flows within that go to higher-risk lanes or to lower velocity. That's all factored into their pricing.

We can't imagine - if you look at what might happen in the shorter term, first of all, this isn't something that we see happening overnight. There is no other pooler out there right now who has a pallet that meets the Costco spec at any type of scale who could do this. So, in terms of appetite, Costco are currently not mandating it and that's been very clear, and we have an ongoing very, very strong relationship with Costco. I think you have to take those two factors into account; no rapid change and that basically if we end up with a faster flow and the mix changes to something that's a slower flow then you should expect that we would have a higher revenue per issue as a result of that switchover.

Anthony Moulder: (Jefferies, Analyst) I'll leave it there. Thank you.

Graham Chipchase: Thanks.

Nessa O'Sullivan: Thanks.

Operator: Thank you. Your next question comes from Jakob Cakarnis from Jarden Australia. Please go ahead.

Jakob Cakarnis: (Jarden Australia, Analyst) Hi, Graham. Hi, Nessa. Through the process of trialling plastic pallets with Costco, was there ever any discussion about co-funding the investment in the plastic pallet pool and whether that's between yourselves and Costco or yourselves and customers, or was the CapEx always contingent on Brambles stumping up the initial investment?

Graham Chipchase: There wasn't because our view is that we've got a strong enough balance sheet to fund this and particularly when you think about the conversion, it is going to take time, would take time if we were going to do it. It wasn't something that - we didn't think we couldn't manage the cash outflows throughout our existing funding structure. That was never a point of conversation.

Jakob Cakarnis: (Jarden Australia, Analyst) To maybe go down the same angle though, could it be likely that Costco look to co-fund their desire to get a plastic pallet pool up with someone other than yourselves, and does the decision this even preclude you from participating in any change to the structure of the plastic pallet pool moving forward?

Graham Chipchase: You would have to ask Costco what their plans are, not us. Our relationship with Costco I think is sufficiently strong that, as Nessa said, at some time, at a point in the future should their conditions change in either structure or pricing or cost, then we don't feel that we would be excluded from participating in the future. For right now we don't see that position changing in a couple of years, and I think even in the future if things change you should always expect us to be disciplined about capital allocation and still want to make those sorts of returns in the future.

Jakob Cakarnis: (Jarden Australia, Analyst) Okay. One final one from me. Appreciate we're not moving forward with it now; what year was marked for the start if Brambles were to pursue this investment with Costco? What year were plastic pallets earmarked to start, the conversion of the current pool to the plastic pool, please?

Graham Chipchase: That would have been driven partly by what we could do. Again, Costco have not set a firm deadline for when they want to start or can finish the transition and our view was it was going to take some time anyway and we certainly didn't expect much to happen over the next 12 months. Our view was we'd start in '23 but we weren't going to be able to ramp up significantly for a couple of years.

Jakob Cakarnis: (Jarden Australia, Analyst) Thanks, guys.

Graham Chipchase: Thanks.

Operator: Thank you. Your next question comes from Andre Fromhyr from UBS. Please go ahead.

Andre Fromhyr: (UBS, Analyst) Hi, guys. Just wondering - it's following up on the previous question but in terms of timing do you know how advanced Costco are in their discussions with alternative providers or exploring alternative business models here, or is the conclusion of these trials back to square one for them?

Graham Chipchase: No, I'm sure it's not. They've always been very clear that they would always have more than one pooler involved in the process with them. Again, I can't speak for Costco and what the timing is but we know that we certainly wouldn't have been the only person in the process.

Andre Fromhyr: (UBS, Analyst) Okay. On the commercial terms that you were exploring with them, did you ever talk about them - Costco or the customers themselves assuming any of the assets risks from the capital investment, for example, an increased amount of compensation in the event of losses?

Nessa O'Sullivan: Absolutely. As Graham mentioned in his introduction, we explored a whole range of alternative options and explored what ways could - what would need to change, what variables would need to change, what would we need to de-risk in the model to be able to get to an adequate return, and obviously doing that in conjunction with discussions with Costco and our customers. Because they were all key people who would have had to sign up and accept the terms, but obviously we didn't reach a sufficiently high premium in the price and the related commercial term that we needed to get us to the right return hurdle. So, being disciplined about where we're allocating capital our conclusion has to be from quite extensive trials, pushing all those levers, exploring all those options, that we're not in a position to be able to recommend that we proceed with this.

Andre Fromhyr: (UBS, Analyst) Okay. From the trials and things you've learned from it, what - maybe just remind us of the - what are the aspects of the Costco supply chains that are unique to this situation that help with the plastic economics. I guess what I'm also asking is did you learn anything from the trials that might give you ideas of who else, either in the US or globally, could suit a plastic model?

Nessa O'Sullivan: We are leaders in plastic pallets globally so we do have a good insight as to what are the key variables that work well. One of the things that we've always talked about is Costco having faster cycle times sets them up well. Also in terms of actually collaboration, Costco have been very collaborative with us and very supportive of a digital asset model and having the right infrastructure to be able to support that. All those things were key variables that set us up to think this could work really well.

Also, Costco were very supportive of us working through a model that we'd be using, that TPM which is essentially a site which means - allows you to effectively sort and reissue pallets much faster so they don't have to go back to a service centre. That was another factor that put Costco in that - had the right conditions for us to say this could well be a

scenario where we could get a much better outcome relative to even other plastic in other markets where you earn a really good return on it.

All those factors were key factors for us but having that collaboration with Costco was also a key factor that they were very open to work with us through the trial. But they are quite unique circumstances, which is why if you were dealing with say going through another retailer that had higher loss rates, longer cycle time, given that the asset cost historically has been three times wooden, the fact that it's closer to four is sort of irrelevant. Even at three items, the cost of wooden the economics just make that quite prohibitive.

Andre Fromhyr: (UBS, Analyst) Okay. Just one more from me, which is in the event that Costco proceeds and you go through with the transition, you've made comments about short-term transition costs. Can you give us some clues on how to think about sizing those transition costs and how they compare with the estimated CapEx savings that you might have on the wood pallets that get freed up?

Nessa O'Sullivan: For us, what we've said is we would seek to offset those so in terms of how you're looking at modelling us, we believe it would be progressive so that we can plan for it, an orderly transition and that we would look to take on new business but also there is a range of investments that we've already talked to the market about in automation and other things that we're doing that we think should enable us to offset that. We don't expect to see that being a material issue for us in terms of having incremental costs as we transition.

Andre Fromhyr: (UBS, Analyst) Are the wood CapEx savings still in line with guidance that you've given previously? I guess it depends on the alternative lumber price at the time.

Nessa O'Sullivan: Yes, and it also depends on the rate of transition and also if there is any transition, would it be part of the pool, would it be all of the pool, but you should assume that if pallets are released we have a home for them within our existing network because across our network we buy new pallets every year to support growth, to support end-of-life assets, et cetera. We haven't been able to go after new business so if pallets are released back we would be able to redeploy them. The value to us of the CapEx, to your point, would really be - it would mean we wouldn't have to go out and buy a wooden pallet if a wooden pallet was released from the Costco network, so whatever the value the market price was at the time would really be what the economic value to us would be.

Andre Fromhyr: (UBS, Analyst) Okay. Thank you very much.

Nessa O'Sullivan: Thanks.

Graham Chipchase: Thanks.

Operator: Thank you. Your next question comes from Justin Barratt from CLSA. Please go ahead.

Justin Barratt: (CLSA, Analyst) Hi guys. Thanks for your time today. I just wanted to ask, the trials that you did with Costco, is there anything that you learnt from those trials that could potentially be rolled out into other aspects of your network, whether it's plastic or wood?

Graham Chipchase: Yes. I think the benefit of having a fully digitised pool to allow you to minimise losses and start thinking about can you end up with a more dynamic pricing model based on specific dwell times, cycle times for specific lanes or specific manufacturers, I think that's all learning that we knew was there but it was actually to get some real-world experience in a very large network like Costco. That absolutely is something we can carry forward and learn from.

I think the R&D effort that went in to developing a new type of plastic pallet that could be repaired much more easily and more sustainably because you're not having to replace the whole pallet because of the modular design, that again we can use elsewhere around the world because we are the leading provider of plastic pallets globally. The next time we

want to upgrade a pool in another country we can use that technology. Those are some, I would say to the main learnings.

Justin Barratt: (CLSA, Analyst) Great. Then at your investor day last year you outlined I guess some expectations or targets for revenue growth and EBIT growth longer term once you've completed that investment program. Is Costco - if Costco were to go down the plastic path and you didn't end up actually supporting them in any way, shape or form, are they material enough to impact that sort of guidance or long-term target?

Graham Chipchase: I think we said that we still anticipate the - if you look back at the shape and the quantum of the numbers we put out on the investor day, the weighting towards the Americas segment, it being weighted to that segment and the quantum and shape of that, we're not changing our view about that at all. It doesn't really make any material impact on the numbers one way or the other.

Nessa O'Sullivan: No, and I think it's a key point that given the scale of this and how you would have to get the pallets manufactured at the spec that Costco want the pallets at, this would take time to implement so it would be progressive. We feel we're well set up to continue to get growth in other parts in terms of if you're looking at what would the impact be in terms of overall growth. We believe this would be done in a more orderly transition rather than an overnight.

I think we have had to step away from going after new business but it's within our DNA to get new business and get new business growth, plus it's within the setup and the structure of the market that every year historically you get that 0% to 2% growth from that unpooled part of the market, and then if you considered the pent-up demand in that market, given really over the last 12 to 18 months that we haven't been able to go there. We would look to manage that in a way that we wouldn't see any material change to what we would expect in terms of our growth overall.

Justin Barratt: (CLSA, Analyst) Fantastic. Thank you for that.

Graham Chipchase: Thanks.

Operator: Thank you. Your next question comes from Cameron McDonald from E&P. Please go ahead.

Cameron McDonald: (E&P, Analyst) Hi, Graham and hi, Nessa. Just a couple of questions from me please. In terms of the ROCE target that you didn't meet, presumably you're not going to tell us exactly what it would have achieved, but under your previous framework you'd said that you would do it above 15 and you'd talk about doing it between 12 and 15 and rejecting the 12. Is it fair to say that it didn't reach the 12 either and even under the previous framework you would have rejected it?

Graham Chipchase: No, it's not fair to say that and you're very prescient in saying we're not going to tell you what it did get to. We were very - I think the last communication was we were setting a hurdle of 18 and it had to get to at least 18 or above before we will do it. So, I think you can assume that it didn't get to 18 or higher and that's all you should read out of that.

Nessa O'Sullivan: Yes. One of the other comments we made too was that if we'd got - if we were really, really close to there and we thought there was an opportunity to continue to work with our customers and with Costco in the short term that would tip us over into our - to reach our target, we would have continued to do that, but the trials were pretty conclusive and hence the conclusion reached.

Cameron McDonald: (E&P, Analyst) Okay, but you also said that even at three times the CapEx it still wouldn't have met the number, so it's got to be at least 25% away from the 18.

Nessa O'Sullivan: I think you need to be careful. I don't think you're necessarily drawing the right conclusion. I think you need to go back and focus on it's not just the input cost of the pallet, it is also heavily dependent on getting the right

commercial terms in place with our customers and with Costco. All of those variables are material variables that you need to get yourself to the right place for us to be able to say this is a good place for us to invest.

Cameron McDonald: (E&P, Analyst) Okay, thank you. The other question I've got is that you've said that you're going to leave the \$20 million worth of investment of plastic pallets out in the broader pool to continue to learn from. How do stop that \$20 million worth of plastic pallets ending up downstream in Walmart?

Nessa O'Sullivan: We're continuing to manage the plastic pool the same we have through the trials and they haven't ended up in Walmart. Where we will keep them flowing is where we're getting good premium pricing and we're continuing to learn from the digitisation which is part of the overall transformation strategy anyway. The issue is we've invested in this pool and now we're saying how do we leverage that further so that we get learnings both for our wooden pool and also in terms of digital insights, not just for how we run our business but also potential so that will flow into the initiatives we have in place for servicing our customers better.

Cameron McDonald: (E&P, Analyst) So, in short though that means that they're not going to be part of an open pool.

Graham Chipchase: Correct.

Nessa O'Sullivan: Correct.

Cameron McDonald: (E&P, Analyst) But isn't the point of digitisation to actually have them in an open pool and to work out where things are going?

Nessa O'Sullivan: Well, I think digitisation, there are learnings to get whether it's closed pool or open pool. Yes, we're doing a whole range of different trials that are more open pool and different but while you have the opportunity to learn from an investment we've already done and we already are getting premium pricing on flowing it would make sense to continue to do that to build our knowledge.

It is all about how do you track the pallets, how do you work out the velocity of flow, where are their insights and how do you illuminate the supply chain further. All those things are valid whether it's a relatively closed pool because while we might say it's a closed pool, there is no flow really that's closed unless it's directly in and out and back in a very, very simple flow. It's fair to say Costco flows are not all of that nature; there will be some element of open, but it's not open broad as in they'll end up Sam's Club or they'll end up in Walmart.

Cameron McDonald: (E&P, Analyst) But presumably if you had gone down the path of investing in Costco with a Costco plastic pool of pallets, they would have been more open.

Nessa O'Sullivan: Well, the flow has been tested.

[Over speaking]

Cameron McDonald: (E&P, Analyst) Well because you've said that it's 10% of flows, right. How are you going to have a closed pool for 10% of flow?

Nessa O'Sullivan: That's exactly my point. I'm saying it's not as open flow as you might say in a higher-loss lane but Costco's velocity and lower losses overall meant that it was their better candidate and it was one of the unique characteristics of Costco that made them a good potential partner to work with. But you're right, the flows - that was the point I was making, that the flows are not the Costco flows, 10% of the flow. They are not all sitting with full closed loops.

That's why if you look forward, Costco may decide over time that they're going to transition part of it, or all of the flows. They may decide some flows are better on plastic and other flows may not make sense given some parts of it may have a higher loss factor or a longer cycle time and it may not make as much sense, but that's a matter for Costco. You're right, our trial was based on real-life Costco flows which you'd say while they are higher velocity, lower loss are not in fact fully closed loop. You're absolutely right.

Cameron McDonald: (E&P, Analyst) Okay, thank you. That's great.

Nessa O'Sullivan: Thanks.

Operator: Thank you. Your next question comes from Owen Birrell from RBC. Please go ahead.

Owen Birrell: (RBC, Analyst) Hi, guys. Just a few questions from me. For the first one, I guess a point of clarification. It's really - you said that you couldn't achieve the right terms on effectively loss compensation and you mentioned input cost volatility and I assume that means you couldn't put resin price pass-throughs into the contracts, so just to confirm that. That in and of itself effectively increases the risk profile of the investment if you couldn't capture both of those dynamics. Is it fair to say that that was really what knocked over the decision, the fact that whilst you could get a return that you couldn't appropriately accommodate the risk profile?

Nessa O'Sullivan: It was a combination of all of the factors. When you look at any investment, as you would expect us to do being disciplined with allocation of capital, that we look at not only the quantum of capital but you look at what are your returns and you factor in a risk factor. As you would expect us to do, the same where we have in our contract for different customers, there are different terms sometimes. For us, saying when you're dealing with an asset that is historically three times but now four times the cost, some of those commercial terms relating to loss are more important.

If you think that there's going to be a lot of volatility, the same way say for transport we do in our contracts, we've got a - there's a cap or there's a surcharge mechanism, you would expect us to have appropriate mechanisms so that we take some of that risk off the table so that we can price appropriately for it. It's not any one factor. It's a range of factors that we needed to get agreement on for us to be able to say this makes sense now and this can deliver a sustainably good return and sets us in a position where we can appropriately support Costco with all of their customers and with a high-quality pool. All those factors factored into the decision, so you shouldn't read into it that it's one factor in isolation; all of that comes together.

Owen Birrell: (RBC, Analyst) Sure. So, effectively the risk-adjusted return was just nowhere near what was acceptable for Brambles despite your scale and the potential efficiencies that you could have derived across this pool. I guess my next question is do you think that level of return, risk-adjusted return is anywhere near appropriate for any of the other potential poolers to come to meet that task?

Graham Chipchase: Again, I think you'd have to debate that with them directly because we don't know what their risk appetite is and we don't know what their cost of capital is, so they may well have a different view. However, one of the things we have learned are because you need a high level of fire retardant to meet the fire regulations, which are Costco's requirement and legally our requirement in the US as well, that's a big cost contributor and they would have that same issue the same as us. The cost of resin is the same for everybody pretty much, so again they're going to have the same cost issues as us and one would expect, given that we think our technology is pretty good on the pallets.

They will need to invest in a capability of understanding the data, they're going to have that issue to manage as well as the design of our pallet is quite interesting in terms of its modularity to manage the cost of repairing any damage. These are all things that they're going to have as well, so on that basis the costs to serve are going to be pretty similar for everybody and it's then just a question of what sort of appetite have they got for risk/return and that will be down to them, not us. All we can say is we were going to be disciplined about our capital allocation and that's what we've stuck to.

Owen Birrell: (RBC, Analyst) Has Costco provided any indications to you what their plan B would be if no providers come to the table?

Graham Chipchase: No, we've not talked about that. They've been very clear that they want to transition all of their flows to plastic over time. That's all they've said and they haven't changed that messaging at all.

Owen Birrell: (RBC, Analyst) Okay. Just one final one from me. It seems like the transport efficiencies was a big part of the possible benefits from this model. Are there any learnings from that that you can deploy into the timber pool or is timber pool just too different to get those sorts of efficiencies?

Nessa O'Sullivan: Yes, really good question. Part of why we want to develop across our wooden platform digital solutions is because with digital solutions, this enables you to explore these other ways of managing your pool that can potentially mean that you can take out extra transport legs. This whole setup of using TPM is something that we have used in the wooden business but if you add digital on top, it just makes it all a lot more feasible and viable to do it. You have that - you get the added benefit of velocity of the pallet pool as well as reduced transport costs.

Owen Birrell: (RBC, Analyst) That's great, thanks. Thanks, Nessa. Thanks, Graham.

Nessa O'Sullivan: Thanks.

Graham Chipchase: Thanks.

Operator: Thank you. Your next question comes from Sam Seow from Citi. Please go ahead.

Sam Seow: (Citi, Analyst) Thanks, guys. Just a couple of quick ones so we can all go home. Is there anything at all that you can tell us that was particularly bad about the results of the trial? I guess we're all just trying to figure out or trying to understand what someone else would need to do to take this on.

Graham Chipchase: No. The one thing that I think was not helpful was the significant increase in the cost of the pallet to manufacture it. That was something that has made a big difference. I think we always knew there would be a debate around the level of price premium that the market would bear and the contractual commitment around things like loss. We always knew that was going to be something we'd have to get into, debates with customers, so that wasn't a surprise.

The big issue was the cost increase and we knew that we were going to have a - it was going to be a test to see what the market would bear. It's driven by the view from Costco that the rest of the supply chain should be covering any increase of cost driven by the capital cost of the plastic pallet versus wood offset by the efficiencies. Our view is that the efficiencies are material, it's just not enough to offset a 4X capital cost. I think that's the one big thing that's come out of this. All the others were very positive.

Sam Seow: (Citi, Analyst) Okay, sure. Was there a price customers would have been happy to pay, or premium, and how far was that off the money or out of the money?

Graham Chipchase: Again, I don't think we want to get into specifics on prices with individual customers, I think that's commercially sensitive, but the view from a macro level is that we knew that it would be very, very difficult for manufacturers to pass on any cost increase to Costco, but I think that's become increasingly difficult in the current environment where all the retailers are really thinking very hard about inflation and how on earth can they pass on anything to their customers and their consumers. I think that this becomes an even more difficult circle to close under the current environment.

Sam Seow: (Citi, Analyst) Okay. Then maybe one more. Were the returns easy to calculate, or how volatile were the returns. I'm just trying to understand the risk I guess someone would need to take on here.

Nessa O'Sullivan: For us, as you can imagine, we ran the numbers, we ran sensitivities, we pressure-tested what commercial terms might change the outcomes for us. All of those were factored in. For anybody else, as Graham said, they're going to face similar challenges in terms of the overall economics. We would like to think given our experience globally with plastic pallets we had a good starting point. We would like to believe from our capability and existing knowledge of our customers and the flows that we were really well placed to be able to do a good test. We did this across a wide range of sectors in terms of the customer groups that were tested. We went into this with a very open mind and willingness to explore our options both with our customers and Costco.

I think anybody coming into it is going to have to have to have to have an open mind and work to the variables because they're challenging. Plastic pallets and the economics have always been challenging but as technology changes and other things change over time with the tracking of pallets, or if you can get other people to sign up to take - either Costco or our customers were prepared to take a higher loss amount or prepared to take some of the volatility off the table, all those things I think anybody coming in will have to explore. We can't comment on their specific view or their specific costs in relation to the components, but I think we are confident that we gave it a very rigorous trial in terms of the sectors we covered and exploring all the potential commercial levers to get us to a return that would have been acceptable to us, our Board, and the shareholders.

Sam Seow: (Citi, Analyst) Great, that's fantastic, and just maybe some housekeeping. On the costs for the trial is there anything that we need to think about that will stop? It sounded like you would take transition costs above the line.

Nessa O'Sullivan: Yes. At this point, while we're not talking about all the components, we don't expect it to be material. First thing, to be anything below the line it would need to be material. We don't see anything material. This was always a small - relatively small in terms of - if you think about Costco flows, this was done on a subset of Costco flows and we've got an over 100 million pallet pool in the region, Costco pallet pool's full size is 6 million; it was a very small subset of that that we did. So no, don't expect anything material in terms of either outcomes from results or expect to see us having a material cost that goes below the line.

Sam Seow: (Citi, Analyst) Great. Thanks for that, guys. Appreciate the call.

Nessa O'Sullivan: Thank you.

Graham Chipchase: Thanks.

Operator: Thank you. There are no further questions at this time. I will now hand back to Mr Chipchase for closing remarks.

Graham Chipchase: Thanks, everyone for coming on the call at short notice, as I said. We're looking forward to seeing you in August in person, which should be really nice, to discuss the FY22 results. Thanks a lot.

Nessa O'Sullivan: Thanks very much.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.

End of Transcript