1. Financial Review

1.1 Group Overview

1.1.1 Summary of 2021 Financial Results

US$m			Change	
(Continuing operations)	FY21	FY20	Actual FX	Constant FX
CHEP Americas	2,627.5	2,449.2	7%	7%
CHEP EMEA	2,056.4	1,831.9	12%	6%
CHEP Asia-Pacific	525.9	436.8	20%	9%
Sales revenue	**5,209.8**	**4,717.9**	**10%**	**7%**
CHEP Americas	385.5	344.2	12%	15%
CHEP EMEA	462.7	410.3	13%	8%
CHEP Asia-Pacific	146.2	118.0	24%	12%
Corporate	(115.1)	(73.1)	(57)%	(45)%
Underlying Profit	**879.3**	**799.4**	**10%**	**8%**
Significant Items	-	-		
Operating profit	879.3	799.4	10%	8%
Net finance costs	(85.6)	(80.8)	(6)%	(4)%
Tax expense	(258.7)	(210.6)	(23)%	(15)%
Profit after tax from continuing operations	**535.0**	**508.0**	**5%**	**5%**
Loss from discontinued operations	(8.9)	(60.0)		
Profit after tax	**526.1**	**448.0**	**17%**	**19%**
Average Capital Invested	4,937.9	4,698.7	5%	2%
Return on Capital Invested	**17.8%**	**17.0%**	**0.8pts**	**1.1pts**
Weighted average number of shares (m)	1,475.1	1,548.7	(5)%	(5)%
Basic EPS (US cents)	**35.7**	**28.9**	**24%**	**25%**
Basic EPS from continuing operations (US cents)	**36.3**	**32.8**	**11%**	**11%**

Note on FX: The variance between actual and constant FX performance reflects the appreciation of Brambles' key operating currencies, particularly the Australian dollar, British pound and the Euro relative to Brambles' reporting currency, the US dollar.

FY21 Operating Environment

During the year, Brambles responded to numerous challenges associated with COVID-19, Brexit and a range of inflationary and supply pressures on key input costs, including lumber, transport and labour.

Customer demand for pallets was elevated and unpredictable, reflecting COVID-19 related increases in the level of at-home consumption of consumer staple products and numerous changes in restrictions impacting on-premise consumption. Brexit added further supply chain uncertainty resulting in increased inventory levels and changes in demand patterns.

Inflationary pressures accelerated in the period driven by changes to both supply and demand dynamics across the key inputs of lumber, transport and labour in all regions.

Global lumber supply challenges in the second half of the year had a material impact on pallet availability and the cost of both new pallets and lumber for repairs. This impact was particularly evident in the US market where strong lumber demand from the US housing and DIY sectors coincided with reduced sawmill capacity and transport and shipping capacity constraints. This dynamic combined with increased lumber demand in China resulted in record levels of lumber inflation and industry-wide pallet shortages in key markets. In response, manufacturers and retailers increased pallet balances across their operations to de-risk disruptions to their supply chains.

Lumber surcharges linked to market indices in North America partially recovered the impact of higher lumber costs in the Year, which was primarily reflected in the higher pallet costs included in capital expenditure and, to a lesser extent, higher lumber costs used for pallet repairs reflected in operating costs.

Collectively, demand volatility, inflationary pressures and disruptions to supply chains due to COVID-19, Brexit and pallet availability challenges resulted in higher operating and capital costs across the Group. Brambles more than offset operating cost increases and delivered operating profit leverage through a combination of pricing initiatives (including surcharges in North America), disciplined cost control and supply chain efficiency benefits from service centre automation, sawmill investments and pallet durability initiatives across the Group.

Sales revenue from continuing operations of US$5,209.8 million increased 7% at constant currency and included 4 percentage points of pricing growth and 3 percentage points of volume growth. Growth was driven by strong customer demand and price realisation across the global pallets businesses and a better than expected recovery in the automotive business, which was severely impacted by the outbreak of COVID-19 in the fourth quarter of the prior year.

Pricing contributed 4% to revenue growth, reflecting initiatives in all regions to recover input-cost inflation and cost-to-serve increases in response to the challenging operating conditions.

Like-for-like volume growth of 2% reflected increased pallet demand from existing customers in the consumer staples sector due to high levels of at-home consumption in developed markets and increased customer and retailer inventory holding to de-risk supply chains in key markets. Demand from existing customers in the automotive business increased in line with manufacturing activity.

Net new business growth of 1% was largely driven by conversion of new customers to pallet pooling across Central and Eastern Europe and rollover contribution from a large RPC contract win in Australia. Growth with new customers in the Americas region was modest as the business focused on servicing strong demand from existing customers given network capacity constraints and pallet availability challenges in the region.

Underlying Profit and **Operating Profit** of US$879.3 million increased 8% at constant currency, reflecting volume and price growth, supply chain efficiencies, income from lumber surcharges in North America of approximately US$60 million and one-off compensation payments of US$10 million primarily relating to the relocation of a service centre in the Asia-Pacific region. These contributions to profit more than offset higher operating costs and asset charges during the year.

At the Group level, the US$295 million contribution to profit from volume growth, price and North American lumber surcharges was partly offset by:

- Plant cost increases of US$74 million (excluding North American lumber surcharge income), reflecting higher repair costs due to lumber inflation and additional handling costs driven by changes in network flows and scarcity of pallets in all regions as the businesses utilised the existing pallet pool to service customer demand. These cost increases were partly offset by US$24 million of efficiencies associated with service centre automation projects and pallet durability initiatives across the Group;
- Net transport cost increases of US$56 million (including transport surcharge income), reflecting transport inflation and additional pallet collections and relocations. Other transport cost increases including additional transport miles associated with the Latin America asset management programme and Brexit-related pallet relocations in Europe, were partly offset by automation benefits in the US and efficiency gains in Latin America;
- IPEP[1] expense increases of US$39 million driven by the US business with First In First Out (FIFO) unit cost increases and higher losses due to a range of factors including an increased gap between recycler incentives to return pallets and both their costs to recover pallets and the value of pallets to third parties. Overall recoveries in the US market were also impacted by labour and transport capacity constraints and some COVID-19 related site access restrictions. In addition, variability in demand and pallet scarcity resulted in some stockpiling of pallets by retailers and manufacturers. Across the rest of the Group, lower loss rates offset higher FIFO unit pallet costs;
- Depreciation expense increases of US$29 million in line with pool growth and investments in automation programmes;
- Shaping Our Future (including BXB Digital) cost increases of US$25 million were largely driven by investments in digital, customer experience and overhead supply chain efficiency projects and consultancy costs; and
- Other indirect cost increases of US$19 million, reflecting the impact of higher unit FIFO values on pallet disposals and scraps as well as increased overhead investments in line with growth.

Profit after tax from continuing operations of US$535.0 million increased 5% at constant currency, reflecting operating profit growth offset by an increase in finance costs and tax expense.

Net finance costs increased 4% at constant currency, reflecting lower deposit balances due to the ongoing capital management programme and lower Australian dollar average deposit rates.

Tax expense was US$258.7 million, up 15% in constant currency and included a US$22.7 million Significant Item related to the revaluation of deferred tax balances in response to the announced increase in the United Kingdom corporate tax rate from 19% to 25% with effect from 1 April 2023. The effective tax rate on Underlying Profit in the period was 29.7% compared to 29.3% in FY20.

Loss from discontinued operations was US$8.9 million, largely relating to the Kegstar business with the small gain on the divestment of this business being more than offset by operating losses in the year reflecting the COVID-19 related closures of on-premise venues and the impact of cumulative FX translation losses recognised on divestment. Prior year losses relate to the operating loss in Kegstar, the impairment of Kegstar PPE and intangibles, and the impairment of the deferred consideration receivable from First Reserve.

[1] Irrecoverable Pooling Equipment Provision.

Return on Capital Invested was 17.8%, an increase of 1.1 percentage points at constant currency reflecting the strong Underlying Profit performance offsetting the increase in Average Capital Invested which increased 2% at constant currency. This increase reflected the impact of lumber inflation on pallet prices in the second half of the year combined with capital investments to support volume growth and Brexit-related stocking in Europe.

Cash Flow Reconciliation

US$m	FY21	FY20	Change
Underlying Profit	879.3	799.4	79.9
Depreciation and amortisation	665.0	607.7	57.3
IPEP expense	198.3	154.7	43.6
EBITDA	**1,742.6**	**1,561.8**	**180.8**
Capital expenditure	(1,003.3)	(916.1)	(87.2)
US supply chain investment	(51.7)	(72.7)	21.0
Proceeds from sale of PPE	145.8	103.7	42.1
Working capital movement	37.3	74.2	(36.9)
Other	30.4	3.9	26.5
Cash Flow from Operations	**901.1**	**754.8**	**146.3**
Significant Items	(0.9)	(3.4)	2.5
Discontinued operations	(7.1)	(15.5)	8.4
Financing costs and tax	(271.1)	(273.7)	2.6
Free Cash Flow	**622.0**	**462.2**	**159.8**
Dividends paid – ordinary	(280.8)	(290.7)	9.9
Free Cash Flow after ordinary dividends	**341.2**	**171.5**	**169.7**
Dividends paid – special	-	(183.2)	183.2
Free Cash Flow after special dividends	**341.2**	**(11.7)**	**352.9**

Cash Flow from Operations of US$901.1 million increased US$146.3 million on the prior year driven by higher earnings, increased compensations for lost equipment in the US and Europe, and proceeds primarily relating to the one-off compensations for the mandatory service centre relocation in the Asia-Pacific region. These increases were partly offset by higher capital expenditure and a lower contribution to cash flow generation from working capital benefits, despite ongoing improvements in the year.

On a cash basis, capital expenditure (excluding US supply chain investments) of US$1,003.3 million increased US$87.2 million, with investments to support growth and higher pallet prices due to lumber inflation being partly offset by improved payment terms on pooling equipment purchases. Operating cash flow also includes a US$180 million timing benefit relating to the delay of pallet purchases into FY22 due to lumber availability constraints. These benefits are expected to reverse in FY22.

On an accruals basis, capital expenditure increased US$220.1 million at constant currency driven by a US$228.0 million increase in pooling capital expenditure. This increase reflected lumber inflation of US$150 million and approximately US$80 million of additional pooling equipment purchases to support volume growth, lower pallet recoveries in the US and higher inventory levels, particularly evident across supply chains in Europe.

Non-pooling capital expenditure decreased US$7.9 million at constant currency as increased investments in wash facilities to support the large Australian RPC contract were largely offset by a decline in US service centre automation spend as the three-year programme announced to the market in 2018 was completed during the year. Further automation investments outside of this programme commenced during the year with minimal spend in FY21.

The year-on-year decrease in working capital movements reflected the cycling of material improvements in cash and European VAT collections in the prior year. Further improvements in working capital management contributed to additional working capital benefits in the current period.

Other cash flow items improved US$26.5 million and include increased provisions predominantly relating to employee costs.

Free Cash Flow after ordinary dividends was a surplus of US$341.2 million and increased US$169.7 million on the prior year driven by the improvement in Cash Flow from Operations. Included within Free Cash Flow were US$215 million of timing benefits relating to the delayed pallet purchases of US$180 million referenced above and tax payments of US$35.0 million. Excluding these timing benefits which are expected to reverse in FY22, the business delivered $126.2 million of positive Free Cash Flow after dividends.

Cash outflows relating to financing costs decreased US$12.0 million due to the cycling of prior year costs relating to the early termination of the US$500 million 144a bond.

Free Cash Flow after ordinary and special dividends increased US$352.9 million, reflecting the prior year payment of the US$183.2 million special dividend in October 2019.

Segment Analysis

1.1.2 CHEP Americas

US$m			Change	
	FY21	FY20	Actual FX	Constant FX
Pallets	2,590.0	2,412.5	7%	7%
Containers	37.5	36.7	2%	3%
Sales revenue	**2,627.5**	**2,449.2**	**7%**	**7%**
Underlying Profit	**385.5**	**344.2**	**12%**	**15%**
Average Capital Invested	2,449.4	2,368.6	3%	4%
Return on Capital Invested	**15.7%**	**14.5%**	**1.2pts**	**1.4pts**

Sales Revenue

Pallets sales revenue of US$2,590.0 million increased 7% at constant currency, reflecting higher levels of demand from customers in North America and price realisation in the US and Latin American businesses.

US pallets sales revenue of US$1,928.1 million increased 7% at constant currency, comprising:

- Price growth of 5% driven by actions to recover the higher cost-to-serve;
- Like-for-like volume growth of 2%, reflecting sustained strong levels of demand from customers in the consumer staples sectors during the year. The rate of growth moderated in the fourth quarter as the business cycled a strong prior year comparative which benefitted from record levels of demand following the onset of COVID-19; and
- Net new business was in line with the prior year as the business prioritised servicing strong demand from existing customers during a period of network capacity constraints and lumber availability challenges.

Canada pallets sales revenue of US$310.5 million increased 6% at constant currency, reflecting strong growth with new and existing customers.

Latin America pallets sales revenue of US$351.4 million increased 13% at constant currency, driven by pricing actions to recover the cost-to-serve and net new business growth.

Containers sales revenue was US$37.5 million, up 3% at constant currency, reflecting price mix benefits partly offset by the rollover impact of prior year losses.

Profit

Underlying Profit of US$385.5 million increased 15% at constant currency and included a 1-percentage point improvement in US margins. Underlying Profit included income from lumber surcharges in North America of approximately US$60 million which partially recovered the impact of lumber inflation reflected in both the higher costs of new pallet purchases recognised in capital expenditure, and increases in pallet repair costs which were recognised in operating expenses.

The combined revenue and gross lumber surcharge income contribution to profit of US$212 million, was partly offset by:

- Plant cost increases of US$59 million (excluding lumber surcharge income), reflecting handling and repair cost increases associated with network disruptions and higher pallet repair costs due to record levels of lumber inflation in the fourth quarter of the year. These cost increases were partly offset by US$15 million of efficiencies including damage rate improvements and increased year-on-year benefits from the US service centre automation programme;
- Net transport cost increases of US$42 million (including transport surcharge income) reflecting the impact of inflation on transport costs across the region, additional pallet collection and relocations in the US, reflecting changing network dynamics, and incremental costs to support the Latin American asset management programme;
- Depreciation cost increases of US$14 million due to pool growth and investments in US supply chain programmes;
- IPEP expense increases of US$39 million driven by increased FIFO unit pallet costs and higher losses in the US market reflecting lower pallet returns from recyclers and other market participants. This was driven by a combination of escalating pallet prices relative to recycler incentives, transport capacity and labour availability constraints and industry-wide pallet shortages which resulted in customer stockpiling of pallets. These increases were partially offset by asset efficiency improvements across the rest of the region; and
- Other cost increases of US$7 million, largely reflecting higher FIFO values on assets disposed.

Return on Capital Invested

Return on Capital Invested of 15.7% increased 1.4 percentage points at constant currency due to increased profitability in the region. Average capital invested increased 4% in constant currency, largely reflecting the impact of lumber inflation on pallet purchases.

1.1.3 CHEP EMEA

US$m			Change	
	FY21	FY20	Actual FX	Constant FX
Pallets	1,765.3	1,571.1	12%	5%
RPC	28.9	27.3	6%	3%
Containers	262.2	233.5	12%	6%
Sales revenue	**2,056.4**	**1,831.9**	**12%**	**6%**
Underlying Profit	**462.7**	**410.3**	**13%**	**8%**
Average Capital Invested	1,943.5	1,830.1	6%	-
Return on Capital Invested	**23.8%**	**22.4%**	**1.4pts**	**1.8pts**

Sales Revenue

Pallets sales revenue of US$1,765.3 million increased 5% at constant currency, reflecting strong volume growth in the European pallet business and price realisation across the region.

European pallets sales revenue of US$1,556.6 million increased 5% at constant currency, comprising:

- Net new business growth of 3% driven by contributions from current and prior year contract wins in Central & Eastern Europe;
- Like-for-like volume growth of 1%, reflecting increased demand for consumer staples and higher inventory levels across FMCG supply chains; and
- Price growth of 1% driven by indexation and other pricing initiatives to recover the cost-to-serve.

India, Middle East, Turkey, and Africa (IMETA) pallets sales revenue of US$208.7 million increased 6% at constant currency, driven by price realisation across the region to offset input cost inflation and cost-to-serve increases. Volumes were broadly in line with the prior year as growth with existing customers across most of the region was offset by a slowdown in India due to COVID-19 and the loss of high cost-to-serve customers in Turkey and India.

RPC and Containers sales revenue of US$291.1 million increased 6% at constant currency, reflecting:

- Automotive sales revenue of US$198.9 million, up 10% on the prior year, reflecting better-than-expected recovery in manufacturing activity during the year and cycling the adverse impact of COVID-19 on volumes in the second half of the prior year;
- IBC sales revenue of US$63.3 million, down 5% on the prior year, reflecting lower volumes in Europe; and
- RPC sales revenue of US$28.9 million, up 3% on the prior year, reflecting volume growth in the South African business.

Profit

Underlying Profit of US$462.7 million increased 8% at constant currency as the revenue contribution to profit of US$65 million more than offset:

- Net transport cost increases of US$12 million, reflecting inflation and scarcity in third-party transport and additional relocation costs to support demand volatility due to COVID-19 and Brexit;
- Net plant cost increases of US$9 million driven by higher input-cost inflation and additional costs relating to heat treatment of pallets. These cost increases were partly offset by lower damage rate due to pallet durability improvements;
- Depreciation increases of US$11 million in line with growth in the pallet pool; and
- Other indirect cost increases of US$2 million, reflecting inflation and additional overheads to support improved business capabilities across the region. These increases were partly offset by business productivity initiatives.

Return on Capital Invested

Return on Capital Invested of 23.8% increased 1.8 percentage points at constant currency, reflecting the strong Underlying Profit performance and asset productivity improvements.

1.1.4 CHEP Asia-Pacific

US$m			Change	
	FY21	FY20	Actual FX	Constant FX
Pallets	**397.5**	340.7	17%	6%
RPC	**80.9**	51.4	57%	41%
Containers	**47.5**	44.7	6%	(3)%
Sales revenue	**525.9**	**436.8**	**20%**	**9%**
Underlying Profit	**146.2**	**118.0**	**24%**	**12%**
Average Capital Invested	569.6	490.6	16%	6%
Return on Capital Invested	**25.7%**	**24.1%**	**1.6pts**	**1.2pts**

Sales Revenue

Pallets sales revenue was US$397.5 million, up 6% at constant currency, reflecting both price realisation and volume growth in the Australian pallets business and continued expansion of the timber pallets business in China.

RPC and Containers sales revenue was US$128.4 million, up 20% driven by contributions from a large Australian RPC contract won in the second half of FY20.

Profit

Underlying Profit of US$146.2 million increased 12% at constant currency and included US$10 million of one-off net benefits largely relating to the compulsory relocation of a service centre. Excluding these one-off benefits, Underlying Profit increased 3% at constant currency as the strong sales contribution to profit more than offset anticipated commencement costs associated with the onboarding of the large Australian RPC contract and additional cost increases due to inflationary pressures, lower asset compensations and COVID-19-related costs.

Return on Capital Invested

Return on Capital Invested of 25.7% increased 1.2 percentage points at constant currency, reflecting the one-off profit benefits outlined above. Excluding these one-off items, Return on Capital Invested was down (0.6) percentage points, reflecting the capital investment to support the Australian RPC contract win.