Financial Review

1. Financial Review

1.1 Group Overview

1.1.1 Summary of 2023 Financial Results

US$m			Change	
(Continuing operations)	FY23	FY22	Actual FX	Constant FX
CHEP Americas	3,371.0	2,950.8	14%	14%
CHEP EMEA	2,191.1	2,072.5	6%	14%
CHEP Asia-Pacific	514.7	496.5	4%	11%
Sales revenue	**6,076.8**	**5,519.8**	**10%**	**14%**
Other income and other revenue	**318.9**	**287.7**	**11%**	**12%**
CHEP Americas	573.3	482.3	19%	19%
CHEP EMEA	506.5	461.2	10%	18%
CHEP Asia-Pacific	180.5	169.0	7%	15%
Corporate	(193.3)	(182.5)	(6)%	(11)%
Underlying Profit	**1,067.0**	**930.0**	**15%**	**19%**
Significant Items	-	-		
Operating profit	**1,067.0**	**930.0**	**15%**	**19%**
Net finance costs	(114.1)	(86.3)	(32)%	(34)%
Net impact from hyperinflationary economies[1]	(18.7)	(22.0)	15%	15%
Tax expense	(287.1)	(247.9)	(16)%	(20)%
Profit after tax from continuing operations	**647.1**	**573.8**	**13%**	**18%**
Profit from discontinued operations	56.2	19.5		
Profit after tax	**703.3**	**593.3**	**19%**	**24%**
Average Capital Invested	5,763.6	5,150.5	12%	16%
Return on Capital Invested	**18.5%**	**18.1%**	**0.4 pts**	**0.5 pts**
Weighted average number of shares (millions)	1,388.0	1,415.7	(2)%	(2)%
Basic EPS (US cents)	**50.7**	**41.9**	**21%**	**26%**
Basic EPS from continuing operations (US cents)	**46.6**	**40.5**	**15%**	**20%**

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

FY23 Operating Environment

During the Year, Brambles and its customers continued to face uncertain macroeconomic conditions, inflationary cost pressures and inefficiencies across global supply chains.

Inflationary cost pressures remained challenging during the Year with the cost of raw materials remaining above historic levels, despite some moderation in lumber costs globally and US transport costs in 2H23. Brambles' weighted average cost of new pallets in FY23 remained above FY22 levels although, consistent with the trend in lumber costs, the cost of new pallets trended downwards in most regions in 2H23.

In addition to inflationary pressures, ongoing inefficiencies across supply chains also contributed to cost-to-serve increases in all regions. Elevated inventory levels held by customers and retailers to de-risk their supply chains and pallet availability challenges, most evident in 1H23, resulted in increased pallet cycle times, unauthorised reuse of pallets and higher loss rates.

In response to these market conditions, Brambles continued to work with its customers and retailer partners to improve pallet availability. It also adapted its commercials terms, increased pricing and asset compensations to reflect the increased operating and capital cost-to-serve and invested in numerous asset productivity initiatives which resulted in ~10 million pallets being recovered and salvaged during the Year.

During 2H23, as anticipated, there was evidence of progressive inventory optimisation across manufacturer and retailer supply chains with ~5 million additional pallets returned across Brambles' major markets. Brambles expects an

[1] The net impact of US$18.7 million (2022: US$22.0m) reflects the application of AASB 129 *Financial Reporting in Hyperinflationary Economies*.

additional ~5-7 million pallet returns in FY24 due to progressive destocking at retailers and manufacturers.

Collectively, these additional pallet recoveries and returns, together with investment in the pallet pool, contributed to improved pallet availability and increased service levels across the network in 2H23. The increased pallet availability across major markets enabled the businesses to rebuild plant stock levels to support improved operational efficiencies and remove or materially reduce allocation protocols during 2H23.

Specifically, in North America and Europe, the improvement in pallet availability has also allowed these businesses to pursue new customer wins. The focus is on converting whitewood users to pooled solutions in the US, and to target both lane expansions as well as new customer wins in Europe.

Despite some early signs of new customer wins in 2H23 in our major markets, the volume impact of this did not offset weakness in underlying pallet demand given macroeconomic pressures on consumption and the impact of inventory destocking on volume.

Given the uncertain operating conditions, the strong financial results, including ROCI expansion, demonstrate the quality and inherent resilience of Brambles' business. The results also reflect operating cost and capital investments in the transformation programme, which delivered material benefits in the Year and is also supporting future value creation. Benefits include improvements in commercial terms to support recovery of cost-to-serve, delivery of operational efficiencies and asset productivity benefits.

Impact of Hyperinflation economies on actual and constant FX translations

At actual FX rates, the results for Argentina, Türkiye and Zimbabwe have been retranslated from local currency to USD using the 30 June 2023 period-end spot rate.

During 4Q23, Brambles updated its constant-currency methodology for hyperinflation, eliminating any FX impact arising from retranslating the financial results for Brambles' hyperinflationary economies of Argentina, Türkiye and Zimbabwe. The impact on previously reported constant currency growth rates during FY23 are as follows:

- ~2 percentage points reduction in the 15% revenue growth reported for the first nine months of FY23;
- ~1 percentage point reduction in the 14% revenue growth reported for 1H23.

Sales revenue from continuing operations of US$6,076.8 million increased 14% at constant currency driven by price growth of 16% reflecting commercial discipline in recovering both operating and capital cost-to-serve increases in all regions. This price realisation reflected contributions from contractual repricing and indexation initiatives taken in both the current and prior year as well as specific pricing actions to address high-risk lanes.

Overall volumes declined (2)% with lower like-for-like volumes of (3)% partially offset by net new business growth of 1% in the period.

Like-for-like volumes declined (3)% due to a combination of pallet availability challenges in 1H23 and lower underlying demand in the European and US pallet businesses, reflecting macroeconomic pressures on consumer demand and some inventory optimisation across retailer and manufacturer supply chains. These declines were partly offset by growth with existing customers in the Asia-Pacific pallet and RPC business and the global Automotive business.

Net new business growth of 1% was driven by the European pallet business. This primarily reflected rollover contributions of prior year contract wins and, to a lesser extent, customer conversions in 2H23, as improved pallet availability allowed the business to recommence pursuing new customers.

Other income and other revenue of US$318.9 million increased by US$36 million at constant currency and included US$217.4 million of income relating to North American surcharges, which are pricing mechanisms to recover the impact of fuel, transport and lumber inflation on the operating and capital cost-to-serve in the region.

North American surcharge income in the Year decreased US$7 million at constant currency reflecting lower lumber surcharge income in line with lower market lumber price indices. This was largely offset by the impact of higher fuel prices on transport surcharges.

The balance of other income and the year-on-year increase of US$43 million relates primarily to the profit on disposal of assets and includes the Australian flood insurance proceeds of US$8 million recognised in 1H23.

Underlying Profit and **Operating profit** of US$1,067.0 million increased 19% at constant currency as contributions from pricing actions offset cost-to-serve increases including input-cost inflation and higher asset charges, and incremental overhead investments to support growth and the delivery of benefits from the transformation programme.

The ~US$35 million of plant and transport cost benefits recognised in 1H23 due to lower pallet return rates, largely reversed in 2H23 in line with the ~5 million additional pallet returns across Brambles' major markets, driven by progressive inventory optimisation across retailer and manufacturer supply chains.

At the Group level, the sales revenue contribution to profit[2] of US$815 million more than offset:

- Plant cost increase of US$226 million, reflecting input-cost inflation (including repair lumber) of US$139 million, investments in quality improvement initiatives, additional repair and handling costs to remanufacture pallets and service customer demand with sub-optimal plant stock levels during the Year. These cost increases were partly offset by efficiency benefits from automation investments

[2] Sales revenue contribution to profit is defined as the sales revenue growth net of demand-related activity costs. In FY23, sales growth included a (2)% decline in volume with the associated profit impact being partially offset by lower demand-related plant and transport costs.

in the major pallet markets and the Australian RPC business, damage rate reductions and other supply chain improvements in the US and European pallet businesses;
- Transport cost increases of US$93 million, reflecting fuel and transport inflation of US$46 million and additional relocations associated with sub-optimal plant stock levels, higher pallet return rates and additional recovery activity which delivered asset efficiency benefits across the Group;
- North American surcharge income decreased US$7 million as lower lumber surcharge income was partly offset by higher fuel and transport surcharges;
- Depreciation expense increases of US$73 million reflecting growth in the pallet pool and the impact of pallet price inflation;
- IPEP expense increase of US$56 million, largely driven by higher losses in the US and to a lesser extent in the European pallet businesses, due to supply chain dynamics;
- Shaping Our Future transformation cost increases of US$5 million as incremental investments of US$31 million in digital transformation, customer experience and other productivity initiatives were partly offset by a US$26 million decrease in short-term transformation costs; and
- Other cost increases of US$177 million included cost inflation and overhead investments to support growth and the delivery of transformation benefits in the Year and future value creation initiatives across the Group. These increases were partly offset by higher asset compensations and one-off insurance proceeds in Australia of US$8 million.

Profit after tax from continuing operations of US$647.1 million increased 18% at constant currency, driven by the strong operating profit result.

Net finance costs increased US$29 million at constant currency, mainly reflecting higher interest rates on variable-rate debt as well as higher average net debt following the completion of the share buy-back programme at the end of the prior year.

The net charge of US$18.7 million arising from hyperinflationary economies mainly relates to Brambles' operations in Türkiye and Argentina.

Tax expense of US$287.1 million increased 20% at constant currency, reflecting higher earnings. The FY23 underlying effective tax rate of 30.1% increased 0.7pts on prior year levels reflecting increased Base Erosion and Anti-Abuse Tax (BEAT) in the US, and the mix of global earnings.

Profit from discontinued operations of US$56.2 million relates to the gain on divestment of CHEP China which is recognised as a discontinued operation following the completion of the merger with Loscam (Greater China) in March 2023. Prior year profit from discontinued operations includes the revaluation gain on the loan receivable from First Reserve with the related funds received in 1H23.

Brambles Basic EPS of 50.7 US cents increased 26% at constant currency, reflecting the Group profit after tax growth of 24% and ~2 percentage point benefit from the share buy-back programme which was completed in FY22.

Return on Capital Invested was 18.5%, up 0.5 percentage points at constant currency as the strong Underlying Profit performance more than offset a 16% constant currency increase in Average Capital Invested. The increase in Average Capital Invested includes the full-year impact of pallets purchased at record prices in 2H22 and higher than historical prices in 1H23 compared to the prior year.

Cash Flow Reconciliation

US$m	FY23	FY22	Change
Underlying Profit	1,067.0	930.0	137.0
Depreciation and amortisation	730.1	679.5	50.6
IPEP expense	285.1	232.0	53.1
Underlying EBITDA	**2,082.2**	**1,841.5**	**240.7**
Capital expenditure (cash basis)	(1,659.2)	(1,625.1)	(34.1)
Proceeds from sale of PP&E	189.8	168.3	21.5
Working capital movement	57.6	(40.2)	97.8
Purchase of intangibles	(16.1)	(19.8)	3.7
Other	135.5	67.1	68.4
Cash Flow from Operations	**789.8**	**391.8**	**398.0**
Significant Items	-	(0.5)	0.5
Discontinued operations	34.7	(21.0)	55.7
Financing and tax costs	(326.4)	(284.1)	(42.3)
Free Cash Flow before dividends	**498.1**	**86.2**	**411.9**
Dividends paid	(318.6)	(304.8)	(13.8)
Free Cash Flow after dividends	**179.5**	**(218.6)**	**398.1**

Cash Flow from Operations of US$789.8 million increased US$398.0 million on the prior year as higher earnings and favourable working capital movements were partly offset by slightly higher cash capital expenditure in the period.

On a cash basis, capital expenditure of US$1,659.2 million increased US$34.1 million, reflecting the reversal of abnormally high capex creditors in the prior year, driven by both record pallet prices and the timing of pallet purchases in the fourth quarter of FY22 and paid for in FY23. This was largely offset by an ~8 million reduction in the number of pallet purchases in the Year which equated to ~US$200 million of pooling capex savings in the Year.

On an accruals basis, capital expenditure decreased US$159.7 million at constant currency, due to a reduction in the total number of pallets purchased in FY23, driven by lower volume-related growth in the Year relative to the prior year, incremental asset recovery and scrap reduction initiatives as well as benefits from inventory destocking, primarily in the US and Europe. These savings more than offset ~US$60 million impact of lumber inflation on pallets purchased in the Year as well as additional pallet investments in response to higher loss rates in the US and European businesses.

Non-pooling capital expenditure increased US$5.2 million, reflecting incremental investments in automation initiatives in Europe, partly offset by reductions in North America and Australia, as the businesses cycled higher investments in the prior year.

Proceeds from the sale of PP&E increased US$21.5 million reflecting improved pallet compensation recoveries in the period and the one-off Australian flood insurance proceeds.

The year-on-year favourable movement in working capital of US$97.8 million largely reflected lower inventory holdings in North America and timing of payments across the Group. Approximately US$50 million of this benefit is expected to reverse in FY24.

Other increase of US$68.4 million largely reflects deferred revenue driven by increased sales and longer cycle times and higher provisions including employee benefits partly offset by non-cash adjustments mainly relating to asset disposals. This includes ~US$40 million of timing benefits that are expected to reverse in FY24.

Free Cash Flow before dividends of US$498.1 million increased US$411.9 million on the prior year largely reflecting the Cash Flow from Operations performance.

Cash flow from discontinued operations increased US$55.7 million and included the US$41.5 million final settlement from First Reserve received in 1H23, and the operating cash flow from CHEP China, which is recognised as discontinued operations following the completion of the merger with Loscam (Greater China) in March 2023.

Cash outflows relating to financing costs and tax increased US$42.3 million reflecting higher net finance costs due to increased interest rates on variable-rate debt, as well as higher average borrowings following the completion of the share buy-back programme in FY22, and the phasing of cash flow generation weighted to 2H23. Net tax paid increased US$11.2 million due to higher BEAT costs in the US.

Free Cash Flow after dividends of US$179.5 million increased US$398.1 million on the prior year.

Dividend payments in the period increased US$13.8 million as higher dividends per share were partly offset by a reduction in the shares on issue following the completion of the share buy-back programme in FY22 and FX movements.

Segment Analysis

1.1.2 CHEP Americas

US$m			Change	
	FY23	FY22	Actual FX	Constant FX
Pallets	3,335.4	2,914.2	14%	14%
Containers	35.6	36.6	(3)%	(2)%
Sales revenue	**3,371.0**	**2,950.8**	**14%**	**14%**
Underlying Profit	**573.3**	**482.3**	**19%**	**19%**
Average Capital Invested	3,033.3	2,659.9	14%	14%
Return on Capital Invested	**18.9%**	**18.1%**	**0.8pts**	**0.7pts**

Sales Revenue

Pallets sales revenue of US$3,335.4 million increased 14% at constant currency reflecting contributions from pricing initiatives taken in the current and prior year to recover cost-to-serve increases across the region. Pallet volumes decreased (3)% as like-for-like volume declines in the US were partly offset by expansion with new customers in Latin America.

US pallets sales revenue of US$2,424.3 million increased 13%, made up of:

- Price growth of 18% driven by a combination of rollover benefits from prior year pricing actions and additional pricing initiatives taken in the current year to recover cost-to-serve increases;
- Net new business contributions in line with the prior year given pallet availability challenges in 1H23. With improving pallet availability in 2H23, the business recommenced pursuing new business growth in 2H23; and
- Like-for-like volume decline of (5)% due to softening consumer demand, the impact of pallet availability challenges in 1H23, progressive inventory optimisation at manufacturers and retailers, and some managed loss of flows unsuited to pooled solutions. Like-for-like volume performance improved in 4Q23 to a year-on-year decline of (2)% compared to the 9M23 run rate of a (6)% decline year-on-year. This improvement in 4Q23 was driven by increased beverage, dairy and seasonal produce volumes.

Canada pallets sales revenue of US$375.5 million increased 12% at constant currency due to strong pricing growth and customer mix benefits. Volumes were broadly in line with the prior year.

Latin America pallets sales revenue of US$535.6 million increased 23% at constant currency driven by strong pricing growth to reflect the increased cost-to-serve as well as volume growth with new customers.

Containers sales revenue of US$35.6 million declined (2)% at constant currency due to lower volumes more than offsetting price growth in the North American Intermediate Bulk Container (IBC) business.

Profit

Underlying Profit of US$573.3 million increased 19% at constant currency as a combination of pricing initiatives and efficiency gains offset cost-to-serve increases and transformation investments.

The sales revenue contribution to profit of US$479 million more than offset:

- Plant cost increases of US$172 million including input-cost inflation of US$106 million. Other plant cost increases were largely driven by additional investments in quality improvement initiatives, remanufacturing costs to salvage pallets, additional handling costs due to sub-optimal plant stock balances throughout the Year and international freight costs on repair lumber, partly offset by damage rate improvements and efficiency gains in the US business;
- Transport cost increases of US$43 million, largely attributable to additional relocation of pallets to rebalance the network, as well as increased pallet recoveries including costs associated with using smaller trucks with higher frequency pickups in the US business;
- Surcharge income decreases of US$7 million as lower lumber surcharge income in line with falling lumber prices was partly offset by higher contributions from fuel and transport surcharges;
- Depreciation expense increases of US$38 million from higher cost of pallets purchased over the preceding 12 months;
- IPEP expense increases of US$40 million reflecting higher pallet loss rates as industry dynamics continued to impact pallet return rates and cycle times, which was partly offset by benefits from asset productivity initiatives including increased collections and repair of pallets that would otherwise have been scrapped; and
- Other cost increases of US$88 million reflecting growth-related overhead investments including transformation and asset recovery initiatives, partly offset by increased pallet compensations and reduced pallet scraps.

Return on Capital Invested

Return on Capital Invested of 18.9% increased 0.7 percentage points at constant currency as strong Underlying Profit growth was partially offset by an increase of 14% in Average Capital Invested. This primarily reflects the addition of higher priced pallets to the pool due to lumber inflation and investments to support longer pallet cycle times and customer demand.

1.1.3 CHEP EMEA

US$m			Change	
	FY23	FY22	Actual FX	Constant FX
Pallets	1,909.6	1,789.9	7%	15%
RPC	27.2	30.3	(10)%	3%
Containers	254.3	252.3	1%	7%
Sales revenue	**2,191.1**	**2,072.5**	**6%**	**14%**
Underlying Profit	**506.5**	**461.2**	**10%**	**18%**
Average Capital Invested	2,218.6	1,990.9	11%	19%
Return on Capital Invested	**22.8%**	**23.2%**	**(0.4)pts**	**(0.3)pts**

Sales Revenue

Pallets sales revenue of US$1,909.6 million increased 15% at constant currency, driven by continued price momentum to recover cost-to-serve increases and net new business growth across the region.

Europe pallets sales revenue of US$1,710.9 million increased 16% at constant currency, comprising:

- Price growth of 18% reflecting pricing actions and contributions from contractual indexation to recover cost-to-serve increases;
- Net new business growth of 3% predominantly in Southern, Central and Eastern Europe which benefited from rollover contributions from prior year wins as well as modest benefits from new contract wins in 2H23; and
- Like-for-like volume declines of (5)% due to softening consumer demand driven by cost-of-living pressures, macroeconomic headwinds and progressive inventory optimisation at manufacturers.

India, Middle East, Türkiye and Africa (IMETA) pallets sales revenue of US$198.7 million, up 4% at constant currency, reflecting growth in both price and volumes.

RPCs and Containers revenue of US$281.5 million increased 7% at constant currency, comprising:

- Automotive sales revenue of US$194.0 million up 10%, primarily driven by volume growth in both the North American and European businesses;
- IBCs sales revenue of US$60.3 million in line with the prior year; and
- RPCs sales revenue of US$27.2 million up 3%, driven by pricing initiatives to recover cost-to-serve increases.

Profit

Underlying Profit of US$506.5 million increased 18% at constant currency. The sales revenue contribution to profit of US$292 million more than offset:

- Plant cost increases of US$48 million largely driven by input-cost inflation including labour and lumber of US$26 million. The balance of the increase in plant costs was predominantly attributable to increased repair and handling costs associated with higher pallet return rates in 2H23 and increased pallet remanufacturing activity;

- Transport cost increases of US$45 million primarily due to fuel and other transport cost inflation across the region and including some localised truck fleets used to increase pallet recollections;
- Depreciation expense increases of US$32 million from impact of higher unit cost of pallets purchased in the preceding 12 months;
- IPEP expense increases of US$16 million primarily reflecting higher pallet loss rates as industry dynamics continued to impact pallet return rates and cycle times, which more than offset benefits from asset productivity initiatives; and
- Other cost increases of US$68 million due to increased overhead investments, largely related to additional personnel to support transformation initiatives and delivery of related benefits, with these costs partly offset by increased pallet compensations in the European business.

Return on Capital Invested

Return on Capital Invested of 22.8% decreased 0.3 percentage points at constant currency largely reflecting the full-year impact on Average Capital Invested of pallets purchased at elevated prices in 2H22 as well as FY23 pallet purchases to support demand, largely offset by the increase in Underlying Profit in the Year.

1.1.4 CHEP Asia-Pacific

US$m	FY23	FY22	Change Actual FX	Change Constant FX
Pallets	378.0	363.3	4%	12%
RPC	94.4	94.2	-	8%
Containers	42.3	39.0	8%	17%
Sales revenue	**514.7**	**496.5**	**4%**	**11%**
Underlying Profit	**180.5**	**169.0**	**7%**	**15%**
Average Capital Invested	530.4	512.7	3%	11%
Return on Capital Invested	**34.0%**	**33.0%**	**1.0 pts**	**1.1 pts**

Corporate actions

CHEP China (formerly part of CHEP Asia-Pacific), has been recognised in discontinued operations in FY23 following the completion of the merger with Loscam (Greater China) in March 2023. Prior year comparatives for CHEP Asia-Pacific have been restated.

Sales Revenue

Pallets sales revenue of US$378.0 million, increased 12% at constant currency reflecting continued elevated levels of demand from existing customers primarily in the Australian business, and price realisation to recover cost-to-serve increases. The like-for-like growth reflects increased daily hire revenue as pallet demand continues to offset the improvements to pallet returns in 2H23, with cycle times remaining elevated due to sustained high levels of inventory balances across manufacturer and retailer supply chains.

RPCs and Containers sales revenue of US$136.7 million increased 10% at constant currency driven by like-for-like volume growth in both the RPC and IBC businesses in Australia.

Profit

Underlying Profit of US$180.5 million increased 15% at constant currency and includes one-off net income of US$8 million from insurance proceeds relating to the impact of floods in Australia. The 1H23 benefit of deferred pallet repairs, as a result of lower pallet return rates, largely unwound in 2H23. Excluding the one-off benefit from insurance proceeds, Underlying Profit increased 10% at constant currency, as the sales contribution to profit and automation efficiencies in the Australian RPC business more than offset plant and transport cost inflation, increased damage rates due to longer cycle times, and increased overhead investments, primarily relating to employee costs.

Return on Capital Invested

Return on Capital Invested of 34.0% increased 1.1 percentage points at constant currency and included a 1.4 percentage point benefit from the one-off insurance proceeds.

Excluding the insurance proceeds, Return on Capital Invested decreased 0.3 percentage points at constant currency driven by the 11% increase in Average Capital Invested as a result of the additional investment in pallets to support higher inventory balances and demand across Australian supply chains as well as the material reinvestment in the business infrastructure over the last three years.

1.1.5 Corporate

US$m	FY23	FY22	Change Actual FX	Change Constant FX
Short-term transformation costs	(22.5)	(48.4)	25.9	25.8
Ongoing transformation costs	(88.1)	(60.2)	(27.9)	(31.0)
Shaping our Future transformation costs	**(110.6)**	**(108.6)**	**(2.0)**	**(5.2)**
Corporate Costs	(82.7)	(73.9)	(8.8)	(15.5)
Underlying Profit	**(193.3)**	**(182.5)**	**(10.8)**	**(20.7)**

Shaping Our Future costs of US$110.6 million increased US$5.2 million at constant currency, as increased investment in the transformation was largely offset by a US$25.8 million reduction in short-term transformation costs. The short-term costs are broadly consistent with the outlook provided in August 2022 and include consulting fees as well as internal resources supporting the delivery of transformation benefits.

Ongoing corporate transformation costs of US$88.1 million increased US$31.0 million at constant currency, which includes investments in digital transformation and initiatives to support asset productivity and customer experience.

Corporate costs of US$82.7 million increased US$15.5 million at constant currency, primarily reflecting labour-related cost increases including wage inflation.