Company: Brambles Limited

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Start of Transcript

Operator: Thank you for standing by and welcome to the Brambles Limited 2023 Full Year Results Briefing. 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 one 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: Good morning everyone and thank you for joining us for our 2023 Full Year Results Presentation. Before getting into the results, I want to draw your attention to our announcement this morning that our current deputy CFO, Joaquin Gill, will be succeeding Nessa as the next CFO of Brambles. I am delighted Joaquin will be taking on the role and look forward to working with him as we continue to transform the business for future success. I'd also like to thank Nessa for her significant contributions over the years and for her continued focus and energy to the role since announcing her retirement.

Turning now to the key highlights from our full year performance on slide 3. I'd like to start by saying that this is an outstanding result for Brambles across all aspects of the business. We delivered revenue growth of 14% driven by price realisation to recover both operating and capital cost-to-serve increases. Underlying profit growth of 19% was driven by contributions from pricing actions, which offset input cost inflation, other cost-to-serve increases and overhead investments to support growth and transformation benefits.

These higher earnings combined with favourable working capital movements and an increase in other cash flows were the key contributors to the $398 million improvement in free cashflow after dividends, which was a positive $179.5 million for the year.

Our earnings per share growth was strong at 26% and included a two-point benefit from the share buyback program completed in FY22. The uplift in earnings, our strong balance sheet and liquidity position as well as the return to positive free cashflow in FY23 has given us confidence to declare a final dividend of $0.14 per share, representing an increase of 17% on the prior year final dividend. Total FY23 dividends of $0.2625 per share represents a payout ratio of 55%, a two-point improvement on the prior year.

Finally, our return on capital invested of 18.5% increased 0.5 points, as the underlying profit improvement offset the increase in average capital invested, which was driven by investments in higher cost pallets to support customers.

Turning to slide 4; during the year, we continued to face macroeconomic uncertainty and cost-to-serve increases despite some cost pressures and supply chain inefficiencies starting to ease in the second half of the year. Inventory levels across manufacturer and retailer supply chains remained elevated to varying degrees in different markets. Combined with pallet availability constraints in the first half of the year these dynamics led to longer cycle times, unauthorised reuse of our pallets and higher loss rates, which increased our operating and capital cost-to-serve in all regions.

As anticipated, some progressive destocking occurred in the second half of FY23 leading to approximately 5 million additional pallet returns across our network. These additional pallet returns have provided us with the flexibility to rebuild our plant stock levels, which improves our operational efficiency, replace lost or damaged pallets, service existing customer demand and pursue new business opportunities.

Combined with the asset efficiency initiatives that led to 10 million pallets being recovered or salvaged in the year, we've been able to remove or materially reduce allocation protocols, improve customer service levels in our major markets and reduce the number of new pallets purchased in the year. In terms of pallet demand, while our primary exposure is to consumer staples, the uncertain macroeconomic environment and the increase in cost of living being felt globally continue to weigh on demand for our customers' products.

Pallet demand was also impacted by destocking as manufacturers and retailers utilise existing inventories to service consumer demand.

Turning to input costs; lumber prices which have been elevated and volatile for a number of years moderated in all regions in line with easing supply and demand pressures. The cost of new pallets has also begun to moderate in all regions. However, as expected the Group weighted average cost of a pallet in FY23 was higher than the prior year and remains well above historical averages.

Lower economic activity has eased pressure on transport and fuel costs while labour costs, which represent a large proportion of our plant costs remain elevated with varying degrees of wage inflation across regions. We expect most of the supply chain and cost trends noted in the second half of the year to continue into FY24 and remain confident in our ability to align pricing with the cost to serve and effectively respond to ongoing changes in supply chain dynamics.

With this context in mind, I will now outline our financial outlook for FY24 on slide 5. For the year ended 30 June 2024, we expect sales revenue growth of between 6% to 8% at constant currency, underlying profit growth of between 9% to 12% at constant currency, positive free cashflow of between $450 million and $550 million before dividends and a dividend payout ratio to be consistent with the dividend payout policy of 45% to 60%.

You will see we have moved to guiding to free cashflow before dividends, noting dividends are a capital allocation decision made by the Board. Importantly, we expect dividends to be fully funded through free cashflow in FY24. These financial outcomes are dependent on several factors noted on the slide and Nessa will outline further considerations for FY24 in her presentation.

While it is too early to provide a financial update from July trading, we wanted to provide some context in terms of the operating conditions and trends we have seen over the month of July. The macroeconomic conditions that have created a softer demand environment continue to weigh on volumes with our existing customers. Offsetting this, we have seen some modest net new business wins in our major markets and our progress to date combined with the new business pipeline gives us confidence in our outlook considerations for modest growth in Group volumes over the year.

The progressive destocking experienced from the second half of FY23 continues to occur, primarily in the United States and in line with our full year expectations. Finally, we continue to price consistent with the cost-to-serve environment as we aim to generate an appropriate return on capital.

Turning to the next slide. We are pleased with the progress made this year across the transformation program, which has supported the strong financial operational and sustainability outcomes in FY23. These investments are also laying the foundation for the future success of the business. Our digital transformation is delivering value today with advanced data analytics and increasing digital capabilities supporting both commercial and asset efficiency initiatives by providing greater visibility of our assets and a better understanding of pallet flows.

These additional insights have enabled more informed data-driven negotiations and supported better alignment of pricing with the cost-to-serve. They have also been a key driver of the additional pallets we've been able to recover in

FY23. In combination with remanufacturing pallets to reduce scrap, these additional recoveries have contributed to improving pallet availability across our network, which in turn has had a positive effect on customer service levels in our major markets.

As I will outline shortly, our smart asset trials and pilots are progressing and informing our approach to deploying and extracting value from these assets for both us and our customers. In network productivity our automation and durability initiatives continue to increase the efficiency and quality of repairs, while adding capacity to our network, which positions us well for future growth.

Finally, in customer experience, we continue to progress and refine our service offering. This has been informed by our frequent interactions with customers through surveys and other feedback mechanisms on our service and platforms.

We are approximately halfway through our multi-year transformation program and as you can see from the scorecard on slide 7, there has been good progress made to date across all the streams. However, some of the metrics and measures are tracking below target and have been impacted by market conditions.

In customer engagement while progress has been made in improving our customer experience, our NPS score has been impacted by industry-wide pallet scarcity in FY22 and the first half of FY23. We did see some signs of recovery in the second half of this year with restored service levels in most markets and overall customer experience enhancements including better performance on product quality and on time pallet deliveries. We acknowledge there are opportunities to further improve the customer experience and this will be an area of focus for us in the year to come and beyond.

Net volume growth with existing customers remained challenging during FY23 due to pallet availability constraints in the first half as well as softness and underlying demand and some progressive de-stocking. We expect like-for-like volume growth to be subdued in FY24.

Our pallet durability initiatives are reducing repair costs, delivering a cumulative 118 basis point reduction in damage rates since FY21. However, this is tracking below our target of 150 basis point improvement on a cumulative basis as we experienced headwinds associated with higher damage rates as pallets have stayed out in the system for longer due to supply chain inefficiencies.

Ongoing durability initiatives such as new pallet design and other platform innovations as well as reduced cycle times as pallet availability improves across the industry are expected to support further damage rate reductions to meet our FY25 objective.

Turning to the next slide, I will now provide additional context and pathways for some of the asset efficiency and network productivity metrics which have been impacted by market conditions and our tracking below target. On our target of reducing uncompensated pallet losses by 30%, it has been another challenging year. The cumulative impact of industry-wide pallet scarcity in FY22 and the first half of FY23 led to increased unauthorised reuse of pallets and higher loss rates.

We have started to see improving industry-wide pallet availability, which should lead to supply chain efficiencies and therefore lower unauthorised reuse and loss rates. In addition to these industry dynamics, further improvements to our asset productivity initiatives are expected with the deployment of additional asset protection and field resources as well as the expanded rollout of collection optimisation models and the use of small trucks for more frequent recoveries.

Moving to the pooling CapEx to sales ratio, our outlook is for an improvement of between five and seven points in FY24 and an outcome in line with our scorecard targets by the end of this year. We believe this will be driven by a combination of the asset efficiency initiatives, continued progressive destocking and also improvements in the average pallet price compared with FY23. As outlined at our September 2021 Investor Day, there are also potential further benefits beyond FY25 enabled by data analytics and digital initiatives.

Turning to the rollout of our end-to-end automated repair processes; we have made the decision to revise installations from 70 to 50 sites following a site-by-site return assessment, which reflects our discipline in capital allocation. We believe this also demonstrates our ability to adapt, test and revisit our business cases as we continue to learn from each implementation.

The FY25 pathway on the page reflects the installation of aqua clippers that remove pallet boards. While we expect to achieve 50 automated end-to-end repair processes, being the combination of the clipper technology as well as an alternator for each plant, this is expected to be completed in FY26. This is predominantly due to supply shortages which require us to phase the installation of the autonailers.

Finally, the expected returns from 20 sites not being pursued will be achieved through newly identified initiatives, including investments to upgrade other plant automation as well as reconfiguring repair lines to improve efficiency.

Looking at the progress we have made with the various components of our digital transformation on slide 9, the advanced analytics solutions we have developed which use algorithms and machine learning capabilities on both existing and new data are delivering higher than expected benefits. These tools are helping us to reduce losses, improve cycle times, and optimise how we collect our pallets from retailers.

We have built confidence in the value creation potential of targeted diagnostics, which are now in use in over 30 markets with a rolling portfolio of about 50 diagnostics, creating insights and interventions that remove inefficiencies from our business and customers' supply chains. We continue to progress with our continuous diagnostics pilots and Serialisation+ trials which are providing valuable data and learnings about how to operationalise and manage smart assets across our pallet pool.

Like any new technology, there has been a learning curve with scaling and operationalising the various smart assets. These pilots and trials have provided key learnings which have helped us adapt our approach to deploying and extracting value from smart assets as we develop our pallet identification, tracking and analytical capabilities.

In continuous diagnostics, our pilots in the UK and North America are providing further insights into the value of real time visibility of the pool and how we can optimise the performance of smart assets once they have been deployed. Learnings from these pilots will determine the feasibility of scaling in Europe further. We expect to complete our Serialisation+ proof of concept in Chile during FY24 as well as determine the ability to scale operationally and determine the value this technology can potentially provide in other markets.

While this proof of concept is being completed, local feasibility studies are underway to determine the rollout viability of Serialisation+ in the US and the UK should the Chile pilot prove successful. These involve analysing the learnings from Chile and reviewing local operating conditions as well as some early installation of service centre equipment. These initiatives have informed the FY24 digital transformation OpEx of approximately $110 million and CapEx of approximately $60 million to generate further asset efficiency, commercial and customer value benefits.

We will provide an update on the outcomes of the various digital pilots and trials as well as future investment requirements of our digital transformation at our 2024 Investor Day, which will take place in the first half of calendar 2024.

Finally, turning to the sustainability highlights for the year; FY23 was another step towards our ambitious 2025 sustainability targets as well as our vision of becoming a regenerative business. We have a strong safety culture at Brambles and we are proud of the progress made against our injury frequency rate, which reduced 8% year on year.

There was a three-point improvement in the number of women holding management positions and we remain on track for our FY25 target of 40%. We made meaningful progress towards our forest positive target to enable the sustainable growth of two trees for every tree we use, having facilitated the sustainable growth of 3.85 million additional trees during the year in South Africa.

We also made progress towards our 2030 science-based targets with a 5.2% reduction across Scope 1, 2 and 3 emissions in FY23 compared to FY22. This year we also raised €500 million through our first green bond finance offering. The Brambles green bond is the first by an Australian company to be fully dedicated to the circular economy reflecting the Company's leading position as a circular business pioneer through its share and reuse pooling model.

Finally, our progress was recognised externally through positive ESG assessments during the year, many of which were industry leading. These assessments cover many aspects of our sustainability program, demonstrating excellent performance against our most material ESG goals. I'd now like to hand over to Nessa to provide an update on the financials.

Nessa O'Sullivan: Thank you Graham and good morning everyone. Starting with an overview of the strong FY23 results. As Graham mentioned, sales revenue growth was strong at 14% with pricing and efficiencies offsetting cost increases to deliver operating leverage and underlying profit growth of 19%.

Underlying profit included other income of $319 million, which increased 12% at constant currency, largely driven by higher compensations for lost assets. Profit after tax from continuing operations increased by 18% at constant currency, reflecting increased finance costs due to both higher interest rates and higher average net debt following the completion of the share buyback program at the end of FY22.

The effective tax rate also increased by half a percentage point due to increased BEAT costs in the US and the mix of earnings. The hyperinflation charge of $19 million relates to the devaluation of Bramble's investments in Turkiye and Argentina. While profit from discontinued operations of $56.2 million reflects 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.

Turning to the revenue growth on slide 13; Group sales revenue increased 14% at constant currency driven by strong pricing in all regions to recover both operating and capital cost-to-serve increases. Group volumes declined by 2% as net new business growth of 1% was offset by a decline in like-for-like demand. Net new business growth reflected rollover contributions from prior year contract wins in the European pallet business and to a lesser extent, customer conversions in the second half has improved pallet availability allowed the business to recommence pursuing new contracts.

Like-for-like volume declined 3% due to a combination of pallet availability challenges in the first half, lower underlying demand during the year in both the European and the US pallet businesses and some reduction of inventories across global supply chains in the second half.

Looking at the Group profit analysis on slide 14, sales growth contributed to $815 million to Group profit, which offset the impact of cost inflation and other operating cost increases in the period. North American surcharge income decreased by $7 million due to falling lumber prices partly offset by higher contributions from fuel and transport surcharges.

Plant costs increased by $226 million reflecting input cost inflation of $139 million as well as quality improvement initiatives and additional repair costs associated with the remanufacturing of pallets that would otherwise have been scrapped. These costs were partly offset by efficiency benefits from automation and other supply chain initiatives in the US and Europe pallets businesses.

Transport costs increased by $93 million and included $46 million of fuel and transport inflation as well as increased activity costs to recover pallets as part of our asset efficiency initiatives. Noting that in the first half of the year we called out $35 million of timing benefits from lower pallet return rates, this timing benefit largely unwound in the second half of the year.

Depreciation increased $73 million largely reflected growth in the pallet pool and the impact of pallet price inflation on pallets purchased in FY22 and FY23. IPEP expense increased $56 million due to higher pallet losses driven by supply chain dynamics including longer cycle times and pallet scarcity leading to unauthorised reuse and theft of pallets largely in the US and to a lesser extent in Europe.

Other cost increases of $185 million reflected overhead investments across the Group to support growth and the delivery of the overall transformation benefits with these costs partly offset by higher asset compensations. We also had a net $5 million increase in transformation costs driven by a reduction in short-term transformation costs of $26 million offset by the $31 million increase in ongoing transformation costs, which includes investments in digital, asset productivity and customer service initiatives.

Turning to the segment results and starting with CHEP Americas. The Americas segment delivered sales growth of 14% at constant currency with operating leverage. Revenue growth reflected strong pricing growth to recover cost-to-serve increases with volume declines in the US and the containers business only partly offset by new customer wins In Latin America.

Underlying profit increased 19% at constant currency and margins increased by 0.7 points, reflecting strong sales flow through to earnings and efficiency gains, which offset plant and transport cost inflation, additional asset recovery and remanufacturing costs, higher asset loss charges and overhead investments to deliver transformation benefits.

Return on capital invested also improved by 0.7 percentage points at constant currency driven by the increased earnings partly offset by a 14% increase in average capital invested, which reflects the addition of higher price pallets and overall investment in the pallet pool to support longer pallet cycle times and to replace lost and scrapped assets.

Turning to slide 16 for the revenue profile of the US business. Sales revenue for the US business, which excludes surcharge income increased 13% with pricing growth of 18%, reflecting rollover contributions from prior year pricing actions and additional pricing initiatives to recover operating and capital cost inflation as well as longer cycle time costs.

Like-for-like volumes in the period were down 5% due to pallet availability constraints, particularly in the first half of the year and weakness in underlying customer demand, which was further impacted by inventory destocking in the second half. Like-for-like volumes improved in the fourth quarter to a decline of 2% compared to the first nine months run rate of a 6% volume decline.

Net new business volume was in line with the prior year with pallet availability challenges restricting the ability to target new business in the first half. With improved pallet availability in the second half, the business recommenced targeting new business growth with modest customer wins.

Turning to the EMEA region on slide 17, CHEP EMEA delivered strong sales growth of 14% at constant currency. At constant currency underlying profit increased 18% with margins improving by 0.9 percentage points as the sales flow through to profit and higher pallet compensations offset the impact of input cost inflation across plant and transport and increased overhead investment in additional resources to support future growth and to deliver transformation benefits.

Looking at CHEP EMEA's sales growth in more detail on slide 18, overall sales growth in the region was 14% at constant currency driven by pricing growth of 14% to recover cost-to-serve increases including the impact of lumber inflation on the capital cost of pallets. Overall volumes were flat year on year. Net new business wins were up 3% largely relating to rollover from prior year contract wins in the European pallet business and some modest new customer wins in the second half of the year.

The business continues to focus now on converting its strong new business pipeline to deliver volume growth. Like-for-like volumes in the region declined 3% in the year with a 4% impact from the decline in the pallets business due to softening demand and destocking in the European market. This was partly offset by one point volume growth contribution from the automotive businesses.

Turning to the Asia Pacific region on slide 19, the business delivered revenue growth of 11% in constant currency, driven by both pricing and volume growth in the pallets business and growth with existing customers in the Australian RPC and containers businesses. Underlying profit growth of 15% included an $8 million one-off income in the year from Australian flood insurance proceeds.

Excluding the one-off benefit from insurance proceeds, underlying profit increased 10% at constant currency as sales growth and automation efficiencies in the Australian RPC business offset the impact of plant and transport cost inflation, increased damage rate due to longer cycle times and increased overhead mainly relating to higher employee costs.

ROCI increased 1.1 percentage points at constant currency. Excluding the one-off insurance proceeds return on capital invested decreased by 0.3 percentage points driven by the 11% increase in the average capital invested, reflecting the additional investments in pallets to support higher inventory balances and also to support demand across Australian supply chains.

I will now take you through the corporate segment on slide 20. Overall costs in the corporate segment increased $21 million at constant currency due to a $16 million increase in corporate costs reflecting labour related cost increases including wage inflation and a $5 million increase in Shaping our Future spend.

Now turning to slide 21 and the Group's asset efficiency performance in the period. The pooling CapEx to sales ratio, which is Bramble's asset efficiency metric improved by 6.4 percentage points in the period to 23.4%. This exceeded our expectations for a three-to-four-point improvement, which we guided to for the year. The improvement reflects both the strong revenue growth and approximately 8 million fewer pallet purchases relative to the prior year and is despite an increase in the full year weighted average pallet price with year-on-year pallet price inflation of around 4% or $60 million.

The CapEx benefit of lower demand was offset by additional pallet purchases to support some cycle time increases, replace lost assets and to rebuild plant stock balances across our networks, which are now at healthier levels. The improved plant stocks support both operational efficiencies and enable the regions to target new business growth.

The reduction in pallet purchases, despite these factors was enabled by asset efficiency benefits, which delivered 10 million pallets through additional recoveries and remanufacturing activities, which was an increase of 6 million pallets compared to FY22. Other factors which contributed to lower pallet purchases included manufacturer and retailer inventory reductions which delivered approximately 5 million additional pallet returns across the network and cycling additional purchases in FY22 to support substantial increases in pallet cycle times.

In FY24 we expect the pooling CapEx to sales ratio to improve a further five to seven percentage points through continued benefits from asset productivity initiatives, further progressive destocking across global supply chains and moderating lumber costs and pallet prices across the Group. Despite the significant and unanticipated market headwinds experiencing FY21 when we set our FY25 target of 17% CapEx to sales ratio, we remain on track to deliver our FY25 pooling CapEx to sales targets of around 17% and we expect to be in and around 17% to 18% pooling CapEx to sales range in FY24.

Turning to our cashflow performance on slide 22; pleasingly, the Group delivered $180 million of free cashflow after funding increased dividend payments during the year. Cashflow from operations increased by $398 million at actual FX rates, mainly driven by higher earnings and favourable working capital and other movements.

Cash capital expenditure increased $34 million despite eight million fewer pallet purchases in the period due to cash outflows in FY23 relating to the abnormally high prior year CapEx creditor balance driven by both the timing of pallet purchases in FY22 and the elevated pallet prices in the second half of last year.

The working capital increase largely reflected lower inventory holding in North America and timing of payments across the Group. Other increase of $68 million reflects the impact of revenue growth on deferred revenue and higher employee benefit provisions. Approximately $90 million of these favourable working capital and provision movements are expected to reverse in FY24. These cashflow timing benefits in FY23 were more than offset by the cash outflow related to the reversal of prior year CapEx creditors, which included over $100 million of lumber inflation impacts on pallet purchases in the fourth quarter of '22 but paid for in FY23.

The $56 million increase in cashflow from discontinued operations includes the $41.5 million final settlement from First Reserve. The balance of the increase relates to lower net operating cash outflows from CHEP China, which is recognised in discontinued operations following the merger with the Loscam Greater China in March 2023. The $42 million increase in cash outflows related to financing costs and tax were driven by the factors outlined earlier.

Dividend payments increased $14 million on the prior year with higher dividends per share due to both the strong earnings growth and the impact of the share buyback program completed in June 2022.

Turning to our balance sheet, the balance sheet remains exceptionally strong with high levels of liquidity. As at year end, the Group had $1.8 billion of undrawn committed bank facilities and cash balances of $161 million In March 2023 Brambles issued a €500 million eight-year green bond to cover the repayment of the €500 million bond maturing in June 2024. We continue to maintain strong investment grade credit rating with financial ratios remaining well within the ratings headroom and our policies.

Turning now to FY24 and our guidance, which Graham outlined earlier and some key input considerations. We expect high single digit revenue growth of 6% to 8% with operating leverage and positive free cash flow to fully fund dividend payments. We expect sales growth to be weighted to pricing, albeit at a lower rate of increase relative to FY22/23 reflecting some moderation in inflation. The pricing assumption includes rollover contributions from FY23 pricing.

In terms of volume, we expect modest growth in the Group volume weighted to the second half of the year as new customer conversions in key markets are expected to be partly offset by subdued demand from existing customers, driven by economic uncertainty and retailer and manufacturer inventory right-sizing, which we expect to continue across FY24.

We also expect to deliver another year of operating leverage with margin expansion across the Americas and EMEA regions in part offset by Asia Pacific as the business cycles the one-off insurance proceeds from FY23. Additional plant and transport costs are expected across the Group in line with higher pallet return rates, increases in labour inflation and continued investment to improve pallet quality and remanufacturing rates. The higher return rates are however expected to support lower loss rates and other efficiency benefits.

The North America surcharge income is expected to decline year on year reflecting anticipated reductions in market rates for lumber, fuel and transport. Overhead costs across the Group excluding Shaping our Future costs are expected to increase in line with inflation. FY23 was the final year for short-term transformation costs with ongoing Shaping our Future operating costs expected to be around $140 million compared to $88 million in FY23.

This spend largely reflects digital transformation costs of $110 million to support the expansion of data analytics capabilities across the organisation and the smart asset strategy that's expected to support improved customer value delivery and asset efficiency benefits. Net finance costs are expected to increase by between $15 million and $20 million and the effective tax rate is expected to increase by 0.4 points on FY23 levels. Overall, ROCI is expected to be broadly in line with FY23 levels.

Turning to the free cashflow, we expect positive free cashflow before dividends of between $450 million and $550 million as asset productivity initiatives, continued inventory right sizing and moderating lumber prices expected to result in a five to seven percentage point improvement in the Group's pooling CapEx to sales ratio. The level of underlying improvement in the CapEx to sales ratio is dependent on a number of unknown factors including lumber and pallet pricing, destocking and the rate of reduction of inventory levels and flows across global supply chains and other productivity improvements in the asset pool.

Non-pooling CapEx is expected to increase by about $150 million driven by supply chain projects including high returning automation programs and digital investments of around $60 million, largely relating to investment in smart assets to generate further asset efficiencies, commercial and other customer value benefits.

Digital investments are stage gated, based on successful outcomes of trials and pilots. We expect to see the reversal of $90 million of FY23 cashflow timing benefits relating to working capital and other provision balances as outlined on the cashflow slide and the non-repeat of the First Reserve, one-off proceeds.

In line with FY23 cashflow is expected to be weighted to the second half of the year. The dividend payout ratio factored into the outlook is assumed to be consistent with our dividend payout policy of 45% to 60% of underlying profit after finance and tax costs in US dollar terms. We expect to fund dividend payments in the year through free cashflow.

In closing, we delivered strong financial outcomes this year with double digit sales growth, underlying profit leverage, and a return to positive free cashflow generation after funding increased dividends. Importantly, we also improved pallet availability, increased customer service levels and continue to strengthen our global leadership position in sustainability during FY23.

Our transformation program continues to progress and enabled our strong operational financial and sustainability performances this year. In combination with our strong balance sheet this positions us well and sets us up for future successes, which is reflected in our FY24 guidance range where we expect to deliver revenue growth with operating leverage and positive free cashflow generation. Thank you, and I'll now hand over to the operator for Q&A.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are using a speakerphone, please pick up the handset to ask your question. Your first question comes from Justin Barratt from CLSA. Please go ahead.

Justin Barratt: (CLSA, Analyst) Hi Graham. Hi Nessa. Congrats on the result. Look, I was just really interested to dive a little bit deeper on the drivers of the increased operating leverage that you are guiding to an FY24. I think your presentation highlights some of the detractors to leverage with the lower surcharge income, higher repair and transport costs as pallets are returned and then the Shaping our Future costs. Can you just talk to some of the two or three main aspects that are driving that or overcoming those aspects and driving that leverage into '24?

Nessa O'Sullivan: Yes, thanks for the question. Look, a couple of points. First of all, the surcharge income comes down because our input costs come down, so as inflation comes down, they're linked to market prices. So part of the benefit that we'll see is while surcharge income comes down, overall inflation moderates. We have also, as you know taken as we've been repricing contracts, we already have pricing locked in that we have taken over the last few years during much higher inflationary periods.

So part of those benefits continue into the current year. We also are continuing to deploy the automation of plants and some of that is the [Integrim] sites that we talked about, but there's also other automation that we have across our business that is delivering benefits.

The other thing to note is that as we have had inefficiencies because we haven't had sufficient plant stock, we now are increasing efficiencies across our network because we have much healthier plant stocks than we had. Look, they're some of the key contributors, but there's other things we expect to see, which includes, we expect the loss rate to come down now that we start seeing cycle times reduce. All of those together are really the key drivers and look, we're continuing to reprice contracts and get the benefit of those flow through as well.

Justin Barratt: (CLSA, Analyst) Fantastic, thank you. Then you noted in second half FY23 and in your July '23 trading update that you are getting some early new business wins in the US. That's probably come a little bit earlier than I had anticipated. I was just wondering if you could talk a little bit more about those wins. Are they whitewood conversions or are you taking from a competitor and I guess to this point those new business wins, have they come as you expected or are they ahead of schedule?

Graham Chipchase: I think the first thing to say is in the US we did highlight that the pipeline has been ignored for two years because of the pallet availability, so it was always going to be a slow start. As you correctly identify when you're converting whitewood accounts, they tend to be much smaller in quantum than if you're going and changing market share between existing poolers.

So what we've seen is it's been an expected start in terms of what we were expecting. It's going to be largely whitewood conversion, so the quantum is small. We don't anticipate it really coming into the numbers in any material way until the second half of FY24. In terms of are we going after market share in the existing pooling space, I don’t think that’s something we should be doing because we’re already coming out of a position where we’re trying to make sure we’ve got enough plant stock available to give our existing customers the service they actually demand and deserve.

So, I think the focus really is let’s make sure we’re running our existing operations as efficiently as possible. Now, if you get to a situation where some of our customers, for example, would like to have more flexibility and supply and they start to start diversifying supply between two suppliers, where they’ve been one before, that can work against us and for us, and we’ll have to see how that plays out. But I wouldn’t anticipate there being major movements in market share in the US market amongst the poolers. For me, it’s all about trying to reactivate that strong pipeline of converting SMEs from white wood into pooled.

Justin Barratt: (CLSA, Analyst) Fantastic. Thanks for the clarity.

Graham Chipchase: Thanks.

Operator: Thank you. Your next question comes from Reinhardt van der Walt from Bank of America. Please go ahead.

Reinhardt van der Walt: (Bank of America, Analyst) Good morning, Graham and Nessa. Thanks for taking my question. Maybe just a follow up on the previous question about the competitive dynamics. I presume your competitors are also seeing better access to pallets, lower lumber cost. So, while you might not be chasing existing pooling business, are you seeing a rationality amongst your competitors at this stage?

Graham Chipchase: Yes, I think there’s two elements. The short answer is yes, we’re seeing rationality and that’s, I think, something that’s been going on for some years, and I think that’s great. But I think the other point to make is that we, and you’ve seen this through the numbers, in terms of the amount of cash we invested in pallets over the last two years to support our existing customers, from what we can see, and obviously, it’s tough to see the numbers because most of our competitors are not public companies, what we hear is that they probably didn't invest in as many new pallets as we did through that period.

So, the impact they may have when pallets come back may not be as great as ours. Therefore, the flow back that comes to us, first of all, as I said just now, will it help us improve our own efficiency? But then gives us the volumes to go after white wood conversions and it's not necessarily true that other people have the same capacity to do that in the market. But we'll see as we go through the year.

Reinhardt van der Walt: (Bank of America, Analyst) Got it, thanks very much. I presume over the last - especially over the last six to 12 months, your lumber procurement strategy has probably been a bit more dynamic, just because of the pricing situation. Should we be thinking about any change in the weighted average currency base of your lumber cost over the next year or two? Any particular currencies we should be keeping an eye out for?

Nessa O'Sullivan: I would say not, but overall, have we had to be agile due to changes in supply and availability of lumber globally? Yes. We've had to be, but one of the things that is a real competitive advantage for us is how we're set up globally to procure lumber, and you should expect us to continue to outperform the market as we did all the way through COVID, as we saw lumber prices go up 300%, we didn't have our pallet prices go up. You saw us invest in sawmills to make sure we got better yields than our competitor set.

So, we're continuing to trial how we can get even more value out of our understanding of supply chains, and we remain committed to 100% sustainable supply of lumber across our networks as well. Look, we'll continue to let you know how we see the outlook on lumber prices. It is a commodity. So, it can vary. So, look, last year, we said that we expected pallet prices to go up. They up about 4% across the year. Now, we're saying our outlook is we continue to see the trend downwards and that's probably the best way to think about it.

Reinhardt van der Walt: (Bank of America, Analyst) Yes, no, understood. Maybe if I can just slip in one final one. The reserve pallet shortfall that we've been talking about for the last year, with that 10 million of pallets coming back into your hands, what does the de-stocking pallet buffer look like at the moment?

Nessa O'Sullivan: So, look, we said maybe 5 million to 6 million, we might get back to de-stocking in the second half of FY23 and we got back about 5 million. We've said somewhere around 5 million to 7 million we expect to get back in FY24 as a result of de-stocking. But ultimately, at this point, we don't see global inventory levels going back to pre-COVID levels. The science behind this is limited. We're basing it on our conversations with our customers, with retailers and what we're seeing in the market to estimate it, but we'll continue to update the market if we see the dynamics different to how we actually have built in to our outlook.

Reinhardt van der Walt: (Bank of America, Analyst) Perfect, thanks so much.

Graham Chipchase: Thanks.

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

Andre Fromyhr: (UBS, Analyst) Thank you, good morning. I'm just interested in the pricing dynamics at the moment. The commentary about the sales growth guidance suggests that it's still going to be weighted towards price, but am I correct in interpreting that that's mostly a reflection of the pricing initiatives that you've already delivered through the course of FY23 flowing through, or are you still - is there still a lot of work to play out in terms of how you're repricing your portfolio?

Graham Chipchase: It's both, really. There are still going to be some, effectively, follow on price increases from contracts that weren't repriced prior to all the inflationary increases we've seen. But there is also ones where we continue to look at the cost to serve as those changes - as retailer behaviours still leave pallets coming back longer and more damaged when they come back, and we have to continue to price for that. But as ever, I would always put the - this is all reliant on competitors being rational, there being tightness of supply and demand and there being some inflation in the market.

All of those three still being true, but it's undoubtedly fair to say that the ability to price is probably not as strong in the next 12 months as it was for the last 24 months. But that doesn't mean we're not going to keep on doing it because we feel it's appropriate to make sure we get an appropriate return on all the capital we've invested over the last few years.

Andre Fromyhr: (UBS, Analyst) Maybe just a follow up on price in terms of what you've reported so far. Can you comment a bit on the role that mix is playing in the price of mix that you're reporting because you've got slightly larger swing than volume at the moment than what you've reported in previous years. Is the average customer in the US actually paying 18% more on their contracts? Or is some of that coming through via mix?

Nessa O'Sullivan: So, how you should think about it is that there is raw pricing for an increase that you have for a like-for-like flow. We have, over the last few years that we've talked about it, as we've got better through data analytics where we see higher risk lanes, where we know there are higher losses. We charge premiums for those. In some cases, they were quite high premiums because some of that business is business that's better suited to one-way white wood flows rather than high quality pooled pallets. So, some of the mix is included in there.

Other factors include that as we're repricing contracts, there's a chunk of them that pre-COVID had shorter cycle times. So, as we look at repricing, we have to factor in longer cycle times as well, within the business and then just overall to your point, it's the mix of which contracts come up for renewal when and how much they had to be repriced. So, I think you have to factor in all those things if you have higher loss rates, if there's been higher risk or longer cycle time, that's factored in as well rather than just a like-for-like flow.

So, we've got better at watching what happens and that informs our commercial decision making to recover cost to serve. Obviously, last but not least, the pricing has to reflect the fact that the cost of the pallets that we've bought over the last few years have been at elevated prices. So, they're all the components you should think about in terms of price increase. It's not just a like-for-like double-digit pricing increase.

Andre Fromyhr: (UBS, Analyst) Great. Just one more from me. Specifically, on IPEP because you've commented about more pallets being returned. Is there a prospect of changing your assumptions around IPEP or is that potentially part of the assumption for the operating leverage in your guidance for FY24?

Nessa O'Sullivan: Yes, absolutely it is. So, generally, the longer a pallet is out there and away from you, the higher the loss rate is. The more you have higher risk lane flows, you have a high loss rate. So, we would expect as we're making progress with our asset productivity initiatives and recovery of assets, and as we see this de-stocking across global supply chains, we would expect all of those to help support lower loss rates.

Andre Fromyhr: (UBS, Analyst) Okay, thank you.

Nessa O'Sullivan: Thank you.

Graham Chipchase: 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. I just wanted to start on the eight million fewer pallets that you purchased in ’23. You said that you’ve got 10 million pallets returned. How do we think about the CapEx break if you like for pallet purchases as we head into ’24, given that de-stocking is going to continue around the same level?

Nessa O’Sullivan: I think the best indicator is looking at that CapEx to sales number, and we expect a fairly chunky five-to-seven-point improvement cycling a big step down in improvement from this year. So, that’s where you should see the improvements flowing through and into the CapEx.

Jakob Cakarnis: (Jarden Australia, Analyst) Okay, sorry, but what I’m getting at is with pricing forming a larger part of the revenue mix, Nessa, are the unit declines going to be higher for those pallet purchases?

Nessa O’Sullivan: I’m sorry. I don’t really follow what you’re asking.

Jakob Cakarnis: (Jarden Australia, Analyst) Okay, so you had 8 million fewer purchases in ’23, you’re saying that de-stocking will be at a similar run rate into ’24 based on the five to seven that you’re expecting, are we thinking year-on-year again that there’s further improvement in those pallet purchase amounts or will that stay steady now?

Nessa O’Sullivan: Yes, you should assume because if you factor - if you do the backs of on the five to seven decrease on CapEx to sales, given where we’re guiding to on the weighting on pricing, you should expect to see further efficiency gains. Yes.

Jakob Cakarnis: (Jarden Australia, Analyst) Thank you. Thanks for clearing that up. Just a final one. Graham, is there any mix impacts that we need to think about now in the margin profile as that plant stock is replenished? I imagine that some of the customers that weren’t on allocation potentially were higher margin customers or higher margin lanes. Can you just let us understand whether or not there’s any margin mix head winds that we need to think about as more customers come off allocation [points]?

Graham Chipchase: Not really because I think - and, again, the allocations were across the Board in places like the US. So, it would have affected everybody. The only other - the only other comment to make is, yes, as we price to try and encourage the lower use of our pallets in some very high-risk lanes. Now, as pallet availability becomes - and that’s white wood as well and pooled, we would probably expect some of those very high-risk lanes to revert back to white wood which is maybe not such a good thing in terms of margin mix, but actually, it’s a great thing in terms of asset productivity, cash and effectively P&L because the IPEP will come down. So, net, that’s still not a negative for us as well.

Jakob Cakarnis: (Jarden Australia, Analyst) Okay, great. One final one, Graham. We’re still working off an average contract life of three years. Are there any structural changes to customer contracts over that COVID period or is three years the average contract points?

Graham Chipchase: No, we’re still using three years.

Nessa O’Sullivan: Yes.

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

Graham Chipchase: Thanks.

Nessa O’Sullivan: Thanks.

Operator: Thank you. Your next question comes from Matt Ryan from Barrenjoey. Please go ahead.

Matt Ryan: (Barrenjoey, Analyst) Thank you. I just had a question on the balance sheet. You're gearing looks a bit lower than the two times financial policy and presumably, there's going to be a bit more improvement over the next 12 months. So, just in terms of your capital allocation priorities, are you considering a buyback or dividend or anything else at the moment, or is the Shaping our Future Program material enough to stop those conversations from happening at the moment?

Graham Chipchase: So, clearly, this is a discussion and a decision taken by the Board, not by Nessa and I, and my view, and I think Nessa's too, is that those sorts of conversations are much better had when you are in a position of being able to say to the market, we are confident that we have got a step change in our ability to sustainably generate free cash flow. We think we're on the way to being in that position, but we're not quite there yet because we've had one good year, and we're anticipating, as you say, in terms of what we've guided for, for FY24.

So, I think the appropriate time to re-address this and set out our thoughts is probably the investor day early next year, calendar year, because then we'll have gone through maybe six months of this year, and we can see what's on the horizon in terms of use of capital because you're right. We have to look at things like investment in digital and anything else that we can see on the horizon in terms of uses of cash before we make those sorts of decisions. But one would have thought on balance we're in a much stronger position to address that and the fact, as you quite rightly say, our balance sheet is incredibly strong to make some new thoughts around that as we go forward, but not yet.

Matt Ryan: (Barrenjoey, Analyst) I guess one thing that might play into that is asset efficiency and your target of reducing uncompensated losses by 30%. So that looks like a massive improvement relative to the forecast that you've given us today and in '24. I mean can you fill in the blanks of how you'd get such a big improvement in the FY25 year or is this, I guess, more of a case of not wanting to restate the original target that you gave?

Nessa O'Sullivan: No, it's not a case of not wanting to restate the target, it's because we've got some specific initiatives that we're tracking to get us by the end of FY25 onto those targets that we set out at investor day in '21 saying this is where we'll be by FY25. In terms of the total mix of asset efficiency, I think overall we feel like we have good momentum, we have good initiatives in place to deliver these and that's what's really driving our view on those glide paths. But we'll continue to be transparent, publish updates about how we're tracking and at the moment where we're looking with our plans we feel that we are in a good position to deliver on those metrics by FY25.

Matt Ryan: (Barrenjoey, Analyst) Just one specific question on that then. So I think you're guiding to being at or around 103% in FY24 - I'm just looking at the slides which basically says you're back to where you started and then in the following year you get to 70%, so you get that massive improvement in that year. You've outlined a bunch of things in the notes. Is there anything specific in there that changes in that year to get you to that number because it's quite a material source of cashflow if you get there?

Nessa O'Sullivan: Well, it's due to the timing of when we complete all the audits. It's due to the changes in all the contracts that we've been putting in, in relation to compensation. There's a time lag between when we put them in and collect them and you've seen some improvement this year. But look, we'll continue to report on it. We give our best view based on the initiatives that we have and we see that as being feasible given what we've got in place.

Matt Ryan: (Barrenjoey, Analyst) Thank you.

Graham Chipchase: Thanks.

Nessa O'Sullivan: Thanks.

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

Anthony Moulder: (Jefferies, Analyst) Good morning all. If I can start in EMEA please, the growth in the fourth quarter seemed to accelerate from where you were probably for the nine months. I'm just wondering as to what drove that first, please? Related, well not related because it's more for FY24, the level of indexation that you're expecting in EMEA for FY24 please?

Nessa O'Sullivan: So I think a couple of things. First of all, most of the headline that you see in EMEA is driven by contract renegotiations rather than indexation. So if you think about it roughly, roughly in year you're about 75% of that is headline pricing versus indexation. So we still see inflation rates, so we would still include in our components of what we expect to deliver on pricing for FY24. There will still be indexation included in there in the mix, but you should think about repricing as being the biggest component of the pricing.

Look, in terms of EMEA and the shape of revenue in particular, I think it's more as you think about first half/second half it might be - if I kind of take it up a notch I think the best way to think about it is in the first half of last year we still had rollover wins. So we have much tougher comps in the first half of this year in EMEA because we had those rollover new wins. Then in the second half, while we had a bit better pallet availability that was flowing through as you get into the last quarter of the year and we're starting to see - we're seeing as we get into July, we're still seeing the EMEA region continue to have a little bit of an improvement over what we saw in the fourth quarter in terms of volumes.

In both the US and Europe, both of them were challenged by volumes for availability, largely in the first half, and also softer underlying demands. If you're thinking about FY24, both of our major markets are showing improvements but we're still saying any of the volume - and we're flagging modest volume - we're saying expect that more in the second half as it takes time to convert some of the new business and there are still some challenges in underlying demand in our major markets.

Anthony Moulder: (Jefferies, Analyst) Right, thank you. Looking to the US obviously asset availability is improving, not just for you but across the industry, costs generally coming down, excluding the pallet purchase price. It sounds like more of the repricing benefits, rollover benefits in the first half of '24 and then further repricing benefits in the second half of '24. Is there a risk that outside of the cost to serve, which is pushed higher in some ways, that you will see more of a pushback from customers given that that repricing for them started back in fiscal '21?

Graham Chipchase: I mean I don't think so because I think our - so number one, there is still inflation and the costs to serve are still going up because of either inflation or the change in behaviour with the retailers in particular about how their inventory strategies are playing out. But beyond that, I think that our view has always been that we're not pricing to recover short term cost dislocations, we're also having to think about the capital investments we're making which are there for 10 years.

So whilst it means it might get more difficult to get more price increases, the flip side of that is I think we need to be very robust on not reducing prices just because lumber prices appear to be coming down because it's more complex than that. We've got to look at the capital cost we've put into the business as well as the OpEx impact through depreciation. So that's the argument. The data points that we have are the negotiations we've been going through recently and I think our big customers in particular completely understand that. They also understand, because they see the benefit, of the fact that we have been buying a lot of pallets at very elevated prices to support both their ongoing growth but also the change in inventory strategy that they've initiated, going from just in time to just in case. I think that's understood by them, for sure.

Anthony Moulder: (Jefferies, Analyst) Thank you. Just lastly on new contract wins, also expected more so in the second half of '24 inside the US market. How do you think about the accretion to Group ROIC from new contracts? Do they have to be accretive to Group ROIC? Do they have to have a higher level of - or lower level of uncompensated losses, meaning you're fully recovering that loss rates from new customers?

Nessa O'Sullivan: It's a combination of all of those things. So if you think about our network, if there's a potential customer that's in an area where we've excess pallets, who'll transport those pallets under load and pay us for use of the pallets to bring them back to deficit areas then obviously we're in a position to price differently and we would factor that value in. So we look at the value of the network and we look at the loss rates and the other components. Our objective is always to price for the cost to serve and that varies by customer. It can vary by where their flows go to as well as some of those other factors about the length of the haulage cycle times et cetera.

So it depends, is the answer, but it really is multifaceted, all of the inputs that we look at. If it's a customer that looks like it's got higher losses then they will be paying a premium over a customer that has lower losses or if they've got longer cycle times, similarly, versus a customer with shorter cycle times.

Anthony Moulder: (Jefferies, Analyst) Well, I guess that all comes down to the ROIC accretion for that customer, right?

Graham Chipchase: Yes.

Nessa O'Sullivan: Yes.

Anthony Moulder: (Jefferies, Analyst) Right, thank you.

Graham Chipchase: Thanks.

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

Owen Birrell: (RBC Capital Markets, Analyst) Good morning all. Just a couple of questions from me. The first one I guess is just a bit of follow up from Matt's question around the asset efficiency scores and the big step up against the uncompensated pallet losses. I'm just wondering whether there's any particular market that led that major increase in the uncompensated pallet loss?

Nessa O'Sullivan: Yes, it was in the US and we've disclosed that. So as you look at compensated/uncompensated, the loss challenge has been more pronounced in the US. If you think about the major factors that will be driving that, the US had lumber shortages and therefore pallet shortages and availability challenges for 12 months before we saw it really in the other markets in a pronounced way. So that led to all kinds of change in behaviours in the market which led to higher losses and therefore for us, getting compensations and getting clauses into contracts has been a key piece of what we've been doing over the last couple of years. But we would expect to see some of those dynamics change as people start destocking as pallet availability has improved. But definitely it has been weighted towards the US business.

Owen Birrell: (RBC Capital Markets, Analyst) You talk about 300,000 smart assets being deployed by the end of this year into North America. I'm assuming a vast majority of those are going into the US market, is that fair?

Graham Chipchase: Yes and Canada.

Owen Birrell: (RBC Capital Markets, Analyst) Okay. The second question for me just regarding the additional recovery mechanisms that delivered 10 million additional pallets into the pool. As we see pallet availability improve and costs coming down I'm just wondering whether those additional recovery mechanisms are still economic and required and if so, how many pallets should we assume to be added back into the pool for FY24?

Nessa O'Sullivan: So first of all the economics are still very, very compelling to get a pallet back as opposed to buying a brand-new pallet. So when you look at the returns, the impact on cash et cetera, the returns are very compelling. The other thing is noting when we had 2.5 million that we remanufactured versus scrapped, remember, if you think over the last five years we've invested in a lot of automation capability across our network. That allows us to be able to repair pallets a lot more efficiently than we would have been able to do five to seven years ago. So we still are going to be able to leverage the capacity that we’ve got and capability that we've added.

So the economics for that are very, very compelling. The economics are also very compelling for those localised vehicles where we use AI machine learning to help redirect those smaller, localised vehicles to go and pick up pallets. We use the data of the flows to work out where the pallets go and we have increased contact with law enforcement and we use people to go and recollect our pallets. The economics for that just remain very compelling. If you think about where the weighted average cost of a pallet is - it depends on where we buy et cetera - if you think of somewhere, it's more than $25 and it's less than $30, then you compare what it costs to go and pick up the pallet or remanufacture a pallet, it is still economically great returns for us to continue to do that.

In terms of, I don't think we…

Owen Birrell: (RBC Capital Markets, Analyst) Just to confirm, the costs of that additional recovery mechanism is coming into OpEx and not into pooling CapEx?

Nessa O'Sullivan: Yes, absolutely, because we're repairing the same pallet. We're not turning the pallet into a Ferrari or something else. So no, you spend the money and it gets put into your P&L. I don't believe that we have called our specifically what we recover but we've given you the CapEx to sales and I think we've given you a lot of granular pieces to help build up the model. We're confident that those initiatives will continue to play a material role in driving asset efficiency.

Owen Birrell: (RBC Capital Markets, Analyst) You call out 10 million pallets recovered in FY23, is it fair to make similar assumptions for FY24?

Nessa O'Sullivan: Well, as I said, we gave you the overview. So look, from year-on-year last year it's 6 million higher than the previous year. I wouldn't assume the same rate of improvement in FY24 given we only started part way through the year in FY22 but we'll let you know how we're going.

Owen Birrell: (RBC Capital Markets, Analyst) Okay, thank you.

Nessa O'Sullivan: Thanks.

Operator: Thank you. Your next question comes from Scott Ryall from Rimor Equity Research. Please go ahead.

Scott Ryall: (Rimor Equity Research, Analyst) Hello, thank you. My question - I only have one question and it's all on what you've just been talking about, asset efficiency, network productivity. I'm going to refer to the end of page 4, going over to page 5 of your release, and slide 7 please. I'm hoping that you can just give a little bit more granularity on what you did to get 10 million pallets back, because it is a lot. I guess the only reference to slide 7 is that is where you're furthest behind, apparently, with regards to your targets on asset efficiency and network productivity, but I would suggest the 10 million is a pretty good effort over the last 12 months.

So could you just - I get what the low volume recovery vehicles are, small trucks, but in terms of just give us a little bit more on the range of initiatives that have been supported by data analytics, deployment of smart assets, the more collaborative approaches with manufacturers to mitigate the impact of higher losses. Could you give us a little bit more colour as to what you've actually done, please?

Nessa O'Sullivan: Yes. So first of all, Scott, I think the first thing to say is well, firstly, why are we behind target. If you think last year in terms of what we spent on assets, we spent $0.5 billion more because we had pallet price inflation.

Now you can't recover all of the cost of a pallet in a particular year, so naturally, if you're buying a 10-year asset and your pricing is just the pricing in year, you're going to have a bit of dislocation.

So I think we have to recognise what the dynamics were. Plus scarcity of pallets meant that there was higher loss rates. The pallets, when we first set the target we didn't think everybody was going to stock up. If you cast your mind back to pre-COVID, everyone was just in time. Then everyone shifted to just in case. So those were major factors that has meant that we're not on track because we weren't on track in the intervening years we say we're now back on track to be able to deliver. But I think it's really important to understand that fundamentally there was a massive shift in the market that changed those metrics for us and for others. So that's the first thing.

Scott Ryall: (Rimor Equity Research, Analyst) Sure. I'm not suggesting that's a poor performance, I'm suggesting that 10 million in the context of those metrics that you suggested, is very good. I'm just interested in what you've done that is not captured by those metrics.

Nessa O'Sullivan: So what have we actually done. So we've talked again about those small trucks. They've actually been very successful. We do them in the US, we've done them elsewhere. We have also been engaging with all of our NPDs, which are the higher risk lanes, and we've been repricing, but also working with them to lower losses so that we don't have to price. We've had one or two retailers who were not participating. Distributors who've now come over to be participating, which means we get better control of the assets because we get to audit them. They have a win that we don't have to pass on higher prices but we get better asset accountability, so we've done that. We've also used data analytics to help us identify where are the pallets going and from that then tracking and taking legal action to recover our pallets. I think we've had some really great success of that in the US and I think in Europe it's been really interesting.

Our sustainability credentials allowed us to influence the Green Deal in Europe, to get circular business models recognised. We've used that to help change the law. Valencia was the first place that we've done it and we got the first lot of our pallets back because asset title is tricky in Europe but by being able to show - send a letter and actually tell them here's what the law is, we've actually had people for the first time voluntarily returning pallets to us.

We've also - in terms of recycler fees we've also changed some of the commercial terms with some of our recyclers to make sure we're driving best behaviour and getting returns. Essentially, working with all of our customers on losses and anticipating as we get data on flows saying to them look, here's an early indicator that you are having higher losses, which means we're going to have to charge you more at the end of the contract or as we do the audit let's work together collaboratively to avoid that. So that obviously ends up in a better outcome for the customer and a better outcome for us.

So it's using data to do all of those things. We're using a whole array of things. So robotics and other things are helping us to improve processes to process the existing data. We have a heap of existing data that we weren't using as effectively. So all the investment in digital is giving us more capability to analyse the data, to specifically link it to customers so that we can target, here's the areas that we need to focus on. We have a number of programs also with major retailers where we're working with them because if a particular retailer has a longer cycle time versus another retailer than their supplier, that gets factored into their pricing.

So ultimately, working with a whole - having more data to be able to show to the retailer and the customer is helping us to drive better outcomes, as well as increasing the compensation and saying if you lose our asset we need to get paid for the asset.

Hopefully that gives you a better view as to what sort of things we're doing.

Scott Ryall: (Rimor Equity Research, Analyst) Yes. That data is coming from the smart assets, deployment of smart assets?

Nessa O'Sullivan: It's largely from existing assets but we're using the new digital capabilities that we've never had before to be able to use that data in a much more targeted and efficient way so we can translate it into commercial outcomes. So that's supporting not just asset efficiency but also the pricing.

Scott Ryall: (Rimor Equity Research, Analyst) Great. Thank you. That's all I have.

Nessa O'Sullivan: Thanks.

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

Cameron McDonald: (E&P, Analyst) Good morning. A quick question on the financing guidance please, Nessa. The extra $15 million to $20 million, just to confirm is that on the $114 million from this year? Or how do we think about the hyperinflation impact rolling forward?

Nessa O'Sullivan: So I think you've got to separate the two things. So in terms of financing costs, the guidance that we're giving of $15 million to $20 million is in addition over and above the current year. So it's on the FY23 level, that's what you add to get to your FY24. You'll…

Cameron McDonald: (E&P, Analyst) Yes, so that's the $114 million.

Nessa O'Sullivan: Yes.

Cameron McDonald: (E&P, Analyst) Okay, thank you. Then in terms of the digital transformation slide on slide 9, there's some great examples there of how you've created value. Could you estimate the actual dollar amount that that has returned?

Nessa O'Sullivan: Well, I think you have to look at it, as I said, through pricing and through asset efficiency. That's really where the biggest benefits have flowed. But how do you separate out? We've got commercial teams negotiating with data. We get more data. We give that as an insight and that's part of how we look at the flows. Or we get an asset back, which part does it relate to? Does it relate to the existing data and the collections, does it relate to the data? We know in a combination of them that we are getting those outcomes that you see that's included in the results. But we do know the power of the data is getting much better levels of engagement from our customers and retailers and that's why we're confident that the data is helping us to get the better outcomes.

Cameron McDonald: (E&P, Analyst) I suppose my question goes to the point that when you first launched the program it was gated and it was gated on spending more money. So I'm interested to know - because you look at that slide and anecdotally it's working but how have you made the decision to then continue that program from a dollar perspective or a returns perspective with regard to the OpEx and the CapEx continuing to be spent?

Graham Chipchase: I think we've seen enough in terms of the benefit we're getting, as Nessa said, across both pricing and asset efficiency to continue to invest in targeted diagnostics and probably continuous diagnostics. I think you wouldn't necessarily do it for every market in the world but you might in some of the big ones, for sure, based on what we've seen. So that bit, I think, is fairly okay.

I think where the stage gating becomes much more critical and we're absolutely not stepping away from our commitment to do that, is when you start saying are we going to serialise the whole pool. So this whole proof of concept in Chile is stage gated because you have to look at the full cost to operationalise the technology as well as actually tag the pallets and put more ultras into the market. If you're looking at doing that for the whole pool in a certain market you have to be clear what the benefits are. That is what we're working through at the moment and we'll obviously come back to everyone when we have an answer.

The other area where there is a clear stage gate is on what we're calling digital customer solutions, where you're investing usually in very smart assets to give data back to the customer, which allows them to either become more efficient within their supply chain or cut out waste or optimise shelf lives, things like that. That is a very discrete investment and very easy to understand benefit and also find out whether the customer's prepared to pay for it or not. Again, so that's another quantification of the benefits side. We're not going to make those investments unless it's very clear there is an acceptable return. We're doing three trials at the moment. We've not actually rolled it out in a commercial way yet and we won't do until we're comfortable with the returns.

So I think that's where there's a sort of split now, I think, between we're very comfortable that the continuous diagnostic, targeted diagnostic model, does bring value. It is hard to allocate it out as Nessa said between is it the commercial teams, is it the asset productivity teams, but you can see it in the numbers. The numbers are significantly better than even we, I think, anticipated back in 2021, that is because we know this stuff is working, versus the more discrete and potentially larger investments which we have to stage gate.

Cameron McDonald: (E&P, Analyst) Okay. Then just finally then, similar, as we roll forward into FY24 and FY25, how do we think about the profile of both the OpEx and the CapEx? So you're guiding to $110 million in transformation OpEx in '24 and an additional $60 million and potentially non-pooling CapEx of $150 million. How do we think about that in terms of either reducing or dropping away and creating even more leverage in '25 and beyond?

Nessa O'Sullivan: Well look, obviously you only continue to spend and invest if you believe that there are benefits that justify that. So I think we'd say look, in FY21 we set a whole range of targets for FY25, which you can see from our scorecard we're making good progress against. I think investor day early next year will be a really good juncture for us to set out for the market how we see the next horizon looking and I think you'll get more granular details on that. But we have given, as you know, some detail for FY24 which helps you in the interim for this year.

Cameron McDonald: (E&P, Analyst) Okay, thank you.

Operator: Thank you. Your next question comes from Anthony Longo from JP Morgan. Please go ahead.

Anthony Longo: (JP Morgan, Analyst) Good morning Graham, good morning Nessa. Just a quick question on cash flow. I appreciate the guidance that you have given for next year but I just want to get a sense as to what sort of level do you believe is a sustainable level of free cash flow going forward in the context of the working capital movements that you haver flagged into next year but then thereafter and then more normalisation of lumber costs?

Nessa O'Sullivan: I'll let Graham talk to some of the future, which again is something that we can look at. We always said - I guess look, when Graham and I both joined one of the things was we said this business is a high-quality asset and should be in a position to generate strong returns that allow you to generate enough cash to invest in the business, to drive growth and drive competitive advantage and to reward shareholders with dividends. Now, if you went back pre the lumber inflation, we felt like we'd cracked the code doing a lot of things with getting the asset base right, automation, moving commercial terms and that we were in a really good place.

Obviously we had the massive inflation in lumber, now we're sort of back to cash gen and that's a key proof point for us going forward is we want to be able to do what we said we were doing as a model of our investor value proposition was to get that double-digit growth as defined by EPS growth and also dividends, with positive free cash flow. I think that'll remain a key objective of the business but we certainly have built confidence and we put a lot more resilience into the business to be able to do that. I don't know, do you want to add, Graham?

Graham Chipchase: Yes, I completely agree with what Nessa said. I think if we're generating the sort of levels that we're guiding towards for this year and beyond, but being able to do it year in, year out, then I would be very comfortable with that. I think the other really important thing to look at is if you look at what we've done over the last 12 months both from a P&L and from a cash perspective, we have invested a lot in the future success of the Company and still been able to generate good cash and a good ULP growth and EPS.

So if you assume - so we've been able to do that through a period of great volatility in the market and we're still investing to the future, then you can see how we might be very confident about being able to get to a position of sustaining this performance going forwards. It is we only have one year under our belts where we're happy, notwithstanding, as Nessa said, we had some external things that knocked us off track through COVID, but I'd like to see a little bit more track record before we start claiming victory here.

Anthony Longo: (JP Morgan, Analyst) Fair enough. But nonetheless, congratulations on the delta, both in terms of the operating leverage and the cash flow generation.

Just another one in terms of the pallet loss rates and what's compensatable and what's uncompensatable. Are you able to give additional clarity around that? Was it still around about that 50% mark or is it something a little bit more than that?

Nessa O'Sullivan: Look, I think given the disclosures we've got I think it's pretty comprehensive already in terms of you can see the increases in other income, which has higher compensation. You've got the glide path and you've got the actual IPEP charge and we give you a CapEx to sales ratio guidance. I don't think we'd be splitting it down any further because all of these things have to play out. We have to finish audits; we have to see what happens to actual flows. All those things are factors that impact what the actual outcome is. We've tried to give you high level these are the assumptions that we've put in and we've put them in on the basis of our understanding of the business and what we expect to happen and also in conjunction with what we're hearing from customers and retailers more broadly.

So look, that's our best view at the moment. As the year progresses we'll give you updates, particularly at the half year, where we're progressing, and again at the full year. Obviously investor day will be a great time as well to look at some more detail. Obviously Joaquin will be the CFO at that point and so he'll be able to give you a lot more, I'm sure.

Graham Chipchase: You can't see the big smile Nessa's got on her face when she just said that.

Anthony Longo: (JP Morgan, Analyst) I appreciate that. The last question for me, just on Latin America, that looks like a pretty reasonable result. So you had flagged some improvements there over time, just [off some heightened] loss rates. I mean, are you able to give a bit more colour as to what you've done there? Particularly in the context of the pooling CapEx to sales ratio, which has decreased significantly. How much of that is actually underlying operational day-to-day improvement and how much is that largely driven from that price inflation that you may have had?

Nessa O'Sullivan: It's actually a combination of both. Look, the whole asset productivity initiatives that we're doing globally actually started when we had all those issues going back probably about five or six years ago in Latin America. We had one of our team who's actually the CFO in that business who was ex supply chain, did a lot of work on very basic data analytics to help us work out what was happening to change commercial terms. That business very, very successfully turned round an uneconomic business model to an economic business model. We shamelessly stole the insights and by combining digital with it that's why we're getting a lot of the other benefits.

So I would say the outcomes in Latin America is just the continued focus on asset efficiency and continuing to make sure that we have good commercial returns. It's a lot more challenging in an environment where you can have more currency fluctuations. But the team have done a great job. The challenge is stopping flows going into higher risk lanes in places like Latin America, because in some places you just can't get the pallets back if they go there.

So, I think it's a combination of day-to-day slog. It's a combination of a higher-level strategy being executed well, which is ensuring that we stay on top of our business models and take steps to manage the flows.

Anthony Longo: (JP Morgan, Analyst) That's great. Thanks so much. Congratulations again.

Nessa O'Sullivan: Thanks.

Graham Chipchase: Thanks.

Operator: Thank you. There are no further questions at this time. I'll now hand back for closing remarks.

Graham Chipchase: So thank you all very much for questions. I know we'll be seeing all of you over the next couple of days, so I am sure we'll have more of a chat then. But I do just want to leave with a couple of comments. Once is we're really, really proud of these results. They are a fantastic set of results. We wouldn't be where we are today without Nessa. So I am sure you'll all mention that when we see her over the next couple of days. She is very gleefully handing on investor day 2024 to Joaquin. But thanks very much for joining us.

End of Transcript