Company: Brambles Limited
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Start of Transcript

Operator: Thank you for standing by and welcome to the Brambles Limited 2022 Half Year Results call. All participants are in a listen only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Graham Chipchase, CEO. Please, go ahead.

Graham Chipchase: Hello everyone and good morning from Sydney. Thank you for joining us today for our 2022 Half Year Results announcement. Today, I will start by providing a summary of our performance in the half and our updated outlook statement before Nessa takes you through the detailed financials. I'll then come back to update you on the progress we've made with the Shaping Our Future transformation program.

Turning to slide 3 and the key messages from our half year performance. We delivered strong sales revenue growth of 8% and underlying profit was up 4% at constant currency ahead of our FY22 guidance. This performance was driven by price realisation in all our regions to recover inflationary cost pressures and other cost of serve increases. Our volume growth was impacted by strong COVID-19-related demand in the first half of last year and pallet availability constraints in the current period.

Underlying profit included US$24.4 million of short-term transformation costs associated with our Shaping our Future transformation program that we discussed in some detail at our investor day last September. Excluding these costs, our underlying profit was up 9% and included a percentage point of leverage despite the extraordinary inflationary environment we faced, driven by price realisation and supply chain efficiencies.

Free cashflow after dividends decreased US$311.7 million compared to the first half of the prior year and included US$115 reversal of FY21 timing benefits comprising the US$80 million of pallet purchases deferred from the prior year and US$35 million relating to the timing of FY21 tax payments.

During the period, capital expenditure increased significantly, reflecting lumber inflation of US$270 million and US$80 million of additional pallet purchase which were deferred from the prior year. Our return on capital invested remains strong at 18.8%. We have increased the interim dividend by 8% in line with our underlying EPS growth. Our share buy-back is due to restart on 28 February and to complete this financial year.

We describe ourselves as the invisible backbone of the supply chain and during this period, we've withstood the impacts of unprecedented volatility to minimise disruption to our customers and deliver this strong result for our shareholders.

Onto slide 4 and a look at this extraordinary operating environment. Across all our markets, supply chains experienced significant disruptions associated with shipping delays, transport and raw material shortages as well as labour availability challenges and changes in demand due to the emergence of the Delta and Omicron variants of COVID-19. These shortages and disruptions resulted in record levels of input cost inflation and inefficiencies across global supply chains.

Notably, retailers and manufacturers have been holding increased safety stock of their inventory to protect their own customers and consumers against supply volatility. For Brambles, ongoing lumber availability and supply issues have led to pallet manufacturing constraints and have impacted new pallet supply.

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In response to these disruptions, we have been working with retailers, manufacturers and others in the supply chain to improve pallet flow and availability. To optimise service levels across our customer base, we have implemented demand management initiatives as well as increased pallet purchases to improve availability. We have also deployed advanced data analytic tools and enhanced asset recovery processes to increase pallet collections and returns.

We expect pallet availability will remain challenging for the rest of the financial year and into the first half of FY23 and we will continue to increase pallet purchases and work with our customers in all regions to service demand. I want to recognise the efforts of our people who have faced these challenges with resilience and customer focus. Our teams around the world have responded with agility and determination to support local businesses and consumers and we're all very grateful for their efforts.

Onto slide 5 and our updated outlook statement. In light of the current operating environment and our performance in the first half, we have updated our outlook for the full year. We expect to deliver sales revenue growth of 6% to 8% and underlying profit growth of 3% to 5% at constant FX, including approximately US$50 million of short-term transformation costs. Excluding these costs, underlying profit growth is expected to be between 8% and 10%.

Based on the assumptions outlined on the slide, we expect FY22 free cashflow after dividends guidance to be a net outflow of approximately US$350 million. The increased outflow expectation reflects additional lumber inflation and pallet purchases due to extended cycle times and lower pallet returns in all regions. We expect this increase will be partially offset by higher-than-expected earnings growth and timing of non-pooling capital expenditure.

If the current lumber prices and supply chain dynamics persist, Brambles expects FY23 free cash flow after dividends to also be a net outflow. The outflow amount will depend on a number of material unknowns and subject to change, including actual lumber prices, capital cost of pallets and pallet purchase levels as well as the cash contribution from ongoing actions to recover cost-to-serve increases and other transformation initiatives.

Due to these strong results, we are able to increase our dividend and re-start our share buy-back program. We have declared an increased interim dividend of US$0.105 converted and paid as AU$0.1506. This dividend payout ratio of 50% is within our targeted payout ratio range of 45% to 60%.

In terms of capital management, to date approximately AU$2.6 billion from the proceeds of the IFCO sale have been returned to shareholders, representing 92% of the capital management program commenced in June 2019. Our on-market share buy-back will recommence on 28 February 2022 and is expected to complete in FY22, subject to the ongoing assessment of the Group's funding and liquidity requirements.

I'd now like to hand over to Nessa to discuss the result in more detail.

Nessa O'Sullivan: Thanks, Graham and good morning, everyone. Operating in an environment with unprecedented challenges across global supply chains and extraordinary levels of inflation, the Group has delivered sales growth of 8% and operating profit growth of 4%.

The increase in earnings was after expensing US$24 million of short-term transformation costs. Excluding these costs, underlying earnings growth was 9%, which is one percentage point ahead of sales growth in the period. After tax profit increased 4% at actual FX and 5% at constant currency with underlying EPS growth of 8%, reflecting both earnings growth and the benefits from the continuation of the share buyback program announced in conjunction with the sale of the IFCO business in 2019.

Turning to the Group sales revenue growth on slide 9. All segments delivered revenue growth in the period, contributing to overall Group revenue growth of 8%. Pricing contributed eight points to revenue growth, reflecting increased cost-to-

serve across our businesses. Group volume was broadly in line with the prior year, with pallet availability constraining volume growth during the half.

Whilst volumes were flat, net new business growth of 2% was offset by two points of organic volume decline as the business cycled COVID-related demand in the prior year. The net new business growth was largely driven by customer wins in central, eastern, and southern Europe and includes rollover benefits from a large APAC region RPC contract which commenced in the prior financial year.

Turning to slide 10, to the details of the Group underlying profit performance. Underlying profit grew 4% as increased pricing, higher surcharge income and operational efficiencies offset increased costs driven by inflation, supply chain disruptions and shaping our future transformation costs and also reflects the cycling of a one-off US$8 million site compensation in the prior year.

Pricing and surcharge income net of volume-related costs excluding IPEP and depreciation contributed US$243 million to year-on-year earnings growth. Plant costs increased US$61 million as inflation of US$85 million was partly offset by efficiency gains, including benefits from automation and lower damage rates. The first half results also reflects US$25 million of repair and handling activity timing benefits due to lower pallet returns.

Transport costs increased US$71 million, including cost inflation of US$93 million and higher pallet collection and relocation cost due to low plant stocks. These cost increases were partly offset by network efficiencies and lower transport activity related to pallet returns and other transport savings in the automotive business.

Higher depreciation costs reflected prior year pallet additions in the second half of the year and increased pallet purchases in the current period. IPEP increased US$43 million with US$35 million of this due to higher losses, primarily in the US business and US$8 million of increased unit FIFO value of pallets.

Pallet return rates declined as inventory stockpiling increased across supply chains. In addition to this, the increased market pricing of pallets and pallet scarcity also contributed to higher loss rates, recognised in the first half. We also recognised this increase in IPEP expense as part of the increased cost-to-serve and are implementing a range of initiatives to improve pallet return rates and to increase compensation for lost assets with a view to reducing loss rates, improving the return rates of assets, as well as the overall efficiency of the pool.

These initiatives include pricing for higher risk lanes, implementing pallet allocations to limit stockpiling across supply chains and increased pallet recollection activities. We've also increased the use of data analytics and enforcement of legal title for pallets flowing outside of our networks.

Transformation costs increased US$34 million, which includes short-term costs of US$24 million, as well as higher ongoing transformation costs associated with the digital transformation and other initiatives we outlined to the market at the 2021 investor day. The US$6 million increase in other costs largely reflects the cycling of a one-off side compensation of US$8 million in the prior year.

Turning to slide 11 and looking more closely at inflation and cost recovery. The left-hand side of this chart highlights the increased P&L cost-to-serve off US$221 million, including plant and transport inflation and increased expenses reflecting higher loss rates, partly due to increased unit value of wooden pallets driven by lumber inflation, as well as pallet scarcity.

These costs were reflectively recovered with US$243 million of pricing and surcharge income in the first half. The extraordinary lumber inflation has resulted in pallet price inflation, which has added US$270 million to our pooling capital expenditure in the first half. When considering recovery of this increased investment in pallets driven by inflation.

It should be noted that the investment relates to an asset with a 10-year life and that we currently anticipate a cyclical moderation in lumber costs as supply and demand factors are expected to be rebalancing in the second half of FY23. In the second half of this year, we expect pricing and surcharges to continue to offset increased cost-to-serve in the Group P&L.

Taking a closer look at lumber inflation on slide 12. As you can see on the chart in the middle of the slides, we're experiencing record levels of increases in lumber costs. Historically, we've seen cyclical increases in lumber costs in a range of about 30% to 50%, which is well below the 200%-plus levels of inflation we are currently seeing in the market.

What is markedly different about the current inflationary environment is that unlike historic lumber cycles, which have typically been driven by either supply or demand factors, the current inflationary and lumber availability pressure is driven by both supply and demand factors.

On the demand side, we've seen housing booms and DIY increases while supply has been impacted by global shipping and transport bottlenecks, capacity constraints across sawmills and other inefficiencies due to scarcity of raw materials and labour shortages. With increased stockpiling across supply chains adding to increased demand for pallets.

These supply-and-demand pressures have impacted both the cost and availability of lumber and pallets. While lumber inflation impacts repair costs, the biggest impact is on CapEx investment, with the lumber representing over 80% of the cost of a new pallet with US$270 million added to the first half CapEx due to lumber inflation.

Turning to slide 13 and asset efficiency. As you can see from this slide, you can see the US$270 million increase in pooling CapEx due to lumber inflation has added 10 points to the Group pooling CapEx-to-sales ratio in the first half. This higher than expected level of lumber inflation added seven points to the pooling CapEx-to-sales ratio over and above the investor day guided to level of three points of inflationary impact in FY22.

The first half pooling CapEx investment also includes the reversal of US$80 million of the FY21, US$180 million of delayed pallet purchases, highlighted to the market at the full year results. Subject to pallet availability and the level of pallet returns across the balance of FY22, the remainder of the FY21 deferred purchases are expected to largely revers in the second half of this year.

The fully year asset efficiency ratio is expected to be broadly in line with the first half, with lumber costs not expected to moderate until the second half of FY23. Graham will outline the work we're doing to further improve asset efficiency as part of our transformation program later in the presentation.

Turning now to a segment review of the half one results and starting with CHEP Americas region on slide 14. The Americas region reported revenue growth of 10%, largely reflecting pricing growth in the US and Latin America businesses to recover cost-to-serve increases.

Earnings growth of 19% reflected a once percentage point expansion in margins, despite extraordinary levels of inflation and supply chain disruptions which drove higher operating costs. These cost-to-serve increases were effectively offset by pricing, surcharges, operational efficiencies, and cost benefits driven by lower repair and handling costs associated with lower pallet returns.

Margin growth in the region was driven by the Canadian and Latin American businesses with margins in the US in line with the prior year as the business successfully recovered cost increases due to high levels of disruption to supply chains, input cost inflation and increased IPEP asset charges in the period.

In terms of half two expectations for the region, we would expect to see revenue growth largely driven by pricing in a high inflationary operating environment with effective operation of surcharge mechanisms expected to continue to

support recovery of increased operating costs. We also expect the full year region result to reflect margin expansion of around a percentage point, including margin growth in the US business.

Turning to slide 15. The waterfall chart on this slide provides further detail on the key movements in CHEP Americas income and costs in the half. Worth highlighting here is the impact of input cost inflation on the key plant and transport cost categories. Plant cost increases were largely driven by lumber inflation and inefficiencies due to supply chain disruptions.

These cost increases were partly offset by approximately US$15 million of benefits in the period due to deferred repair cost as a result of lower pallet returns with damage rates in the US and other improvements in the US and other automation benefits further offsetting cost increases.

Transport costs increased US$59 million with fuel and transport inflation and additional asset recovery costs in the period partly offset by efficiencies in the US and Latin American businesses. IPEP expense increased US$40 million, primarily reflecting higher losses in the US business with the longer cycle times, pallet scarcity and increased market value of pallets reducing return rates of pallets during the half.

Turning to the US on slide 16. Revenue growth in the US business grew by 9%, driven by pricing to recover increased costs. Volumes declined by 4% as the business cycled strong volume growth of 5% in the prior period. Pallet availability challenges limited both like-for-like and net new business growth in the first half, noting the business has prioritised supply to existing customers rather than allocating pallets to new business.

From the second half, we expect pricing momentum to continue with rollover benefits from pricing actions in the first half and additional pricing actions in the second half to recover ongoing inflation and higher cost-to-serve. Volume growth is expected to remain constrained.

Turning now to CHEP EMEA on slide 17. The region delivered overall revenue growth of 6%, which includes pricing growth of 4% in a high inflationary cost environment with net new business growth in central, eastern, and southern Europe and, despite the shortages of semiconductors, automotive and containers revenue grew by 5%, cycling softer demand in the prior year.

Underlying earnings grew 4%, which was two points below revenue growth as pricing and operational efficiencies lagged cost increases across key inputs and, while margins declined by a half a point in the first half, overall ROCI increased. IN terms of half two expectations, we expect market conditions to remain challenging with lumber, transport and labour inflationary pressures set to continue into the second half.

We also expect further pricing initiatives and operational efficiencies in half two to help offset higher cost-to-serve. On slide 18, looking at more detail in EMEA at sales growth, the chart here provides some prior year revenue growth comparisons for the region, showing annual revenue growth of generally around 4% to 6%, with the region consistently delivering both volume and pricing growth.

Notably, the mix of price and volume has shifted with revenue growth in the prior year weighted to volume growth, reflecting both COVID-19 and Brexit-related surges in demand and revenue growth in the current year is weighted to pricing, reflected of the higher operating cost environment with cost increases including higher transport and fuel costs and increased European pallet heat treatment costs post-Brexit. In terms of the half two outlook, we'd expect revenue growth to be driven by both volume and price with the increase in revenue weighted to pricing, reflecting the operating environment driving the higher cost-to-serve.

Turning to CHEP Asia-Pacific on slide 19. The pallets business in Australia has been particularly challenged with pallet availability in the first half due to increased stock holdings across supply chain and longer pallet cycle times. This

resulted in a material reduction in the level of pallet returns relative to historic norms in the half, which in turn reduced availability of pallets to support demand.

We have increased pallet purchases over the last 12 months and have also taken actions to improve the efficiency of the pool and enhance asset recovery processes to improve availability. Despite cost and availability challenges constraining issue volumes in the region, pallet revenue grew by 3% with increased daily hire fees reflected of longer cycle times, in addition to pallet revenue or PC revenue also grew by 18%, reflecting the rollout of a new RPC contract, which commenced during the prior year.

Underlying profit growth of 15% includes delayed repairs and handling costs associated with the lower pallet returns, the businesses also cycling a prior year one-off site compensation, which was partly offset by increased asset compensation income in the first half.

The business has also continued to invest in the service centre networks and capability to support both the pallet and RPC businesses with efficiencies from these investments also contributing to the first half earnings and overall returns. In terms of the second half expectations, we anticipate the pallet availability disruptions and higher inventory holdings across supply chains are likely to continue and we expect increased pallet purchases in the second half to support customer demand.

Turning to corporate costs on slide 20, the increased cost of US$38 million includes US$34 million of transformation investments, made up of short-term transformation costs of US$24 million, US$5 million of increased investments in ongoing digital initiatives and US$5 million increase in costs related to IT and technology investments to support our transformation ambitions. The year-on-year increase in corporate costs also includes US$2 million related to Brambles' share of MicroStar after tax loss.

In terms of half two considerations, short-term transformation costs are expected to remain in line with the first half costs, with full-year, short-term investment costs expected to be around US$50 million, which is in line with the guidance provided at the 2021 investor day. Other corporate costs are expected to increase relative to the first half '22, largely reflecting increased investments in ongoing Shaping Our Future program costs to support the delivery of transformation benefits and also reflects the usual weighting of corporate cost to the second half of the year.

Turning now to cash flow on slide 21. In FY21, we reported positive free cash flow after dividends of US$341 million and also highlighted that this included $215 million of timing benefits expected to reverse in FY22 with FY22 free cash after dividends previously guided to be an outflow of US$200 million.

Free cash flow after dividends in the first half was a net outflow of US$148 million and included US$115 million of reversal of FY21 timing impacts related to deferred CapEx purchases and tax payments. Excluding the timing impacts, finance costs and tax payments were broadly in line with the prior year while dividend payments increased by US$22 million, reflecting a US$0.015 increase in the FY21 final dividend payment compared to the FY20 final dividend payment.

Year-on-year first half cash flow from operations was down US$261 million due to higher pooling CapEx, including US$270 million of pallet price inflation and also reflecting the cycling of high levels of US pallet plant inventory in the prior year. The first half increase in pallet purchases also reflects US$80 million reversal of timing benefits from FY21 and increased pallet additions to support demand and in response to lower levels of pallet returns.

The impact of higher pooling CapEx investment spend in the first half was partly offset by higher earnings and lower non-pooling CapEx spend. On a full year basis, due to the continuation of extraordinary lumber inflation, we now expect FY22 free cash flow to be a net outflow of US$350 million, which is an additional outflow of US$150 million on the previously guided-to outflow of US$200 million with increased lumber inflation expected to be partly offset by higher earnings.

Finally, turning to the balance sheet on slide 22. We continue to have a strong balance sheet and conservative net debt positioning enabling the funding of increased dividends and the continuation of the share buyback program. At the first half, we have US$1.1 billion of undrawn committed facilities and a cash balance of US$194 million with a conservative net debt to EBITDA ratio of 1.37 times.

Despite the lumber inflation and revised full year free cash flow outflow guidance, we would expect at full year to remain well within our BBB-plus, Baa1 ratings and well within our financial policy of net to EBITDA ratio of under two times and be well placed to invest for growth and transformation as well as being in a position to continue to pay dividends in line with our stated dividend policy.

I'll now hand back to Graham for an update on our Shaping Our Future transformation plans.

Graham Chipchase: Thanks, Nessa. Turning to our Shaping Our Future transformation program, which supports our aspiration to transform the way the world moves goods using insights from data to enhance our customer's growth and to pioneer smarter, more sustainable regenerative supply chains.

Through Shaping Our Future, we are taking a twin track approach to both optimise our core business through asset efficiency, network productivity and business process simplification while building the Brambles of the future by digitally transforming the business and customer experience to deliver value for our customers, shareholders, and employees.

I am pleased with the progress we have made with the implementation of our transformation initiatives across the organisation. You may recall, we established a scorecard to track and report our progress. As you can see, we are tracking according to our plan on digital, business excellence and sustainability but market-related headwinds have impacted six metrics which I'll now touch on.

In customer engagement, our NPS results for the first half of fiscal '22 are not showing the improvement required to be on track for the multi-year goal. That is not surprising, given the wider economic conditions and the well-publicised challenges with supply chain disruption and availability.

We are working hard with our customers to mitigate these disruptions and we recognise the pressure this is putting on their ability to serve their customers. Similarly, our net volume growth target was impacted by strong COVID-19-related demand in the prior year and pallet availability constraints.

As Nessa mentioned, number inflation is significantly increasing the cost of new pallets while industry-wide pallet scarcity and disruptions to global supply chains resulted in the extended cycle times and lower pallet returns in the period. These dynamics have impacted our progress with both our pooling CapEx-to-sales ratio and uncompensated losses reduction targets.

As I will outline shortly, we have a comprehensive asset productivity strategy which we are implementing as part of the transformation program and we are making good early progress with the expectation for a bigger impact as we scale and rollout a combination of pricing, asset collection and digital solutions to support the efficient use of our assets across supply chains. Under network productivity, the rollout of integrated repair sales across our service centre network is behind plan due to semiconductor shortages that are well reported across industries around the world.

Progress towards our target of 40% of management roles held by women plateaued during FY21 and early 2022, largely driven by decreased mobility due to lockdowns. In recent months, this has improved and I'm confident we'll soon be back on track.

Slide 26 sets out how we are aiming to transform our customer experience. You may remember that we talked about this at our investor day in September. We start from a North Star view of how we want to support our customers to be

successful in their businesses, the role that our teams play in making that happen and the power of partnering with our customers to create smarter and more sustainable supply chains.

To deliver that, we are focussed on three pillars of value. Most immediately, effortless customer experience. Second, ensuring that Brambles are the natural partner of choice today and tomorrow. Third, looking further ahead, collaborating with our customers and other partners to create the regenerative and digitally enabled supply chains of the future. To achieve this, we have identified the two underpinning pillars, enhanced customer systems and channels and customer data and insights.

Putting all that together, we're looking at every aspect of how we deliver to customers and rethinking it through the lens of customer experience. Slide 27 gives some examples of the progress we are making. Effortless customer experience is focussed on improving the day-to-day experience of working with Brambles. During the first half of FY22, we conducted multiple pilots with customers, including predictive ordering where we pre-fill data based on previous ordering patterns and they can simply accept or amend the order.

ETA notifications to give customers more visibility around delivering collection timings. We've been working with customers in Europe and the US to understand their information needs but also how best to get that information to them so that it supports their ways of working.

Simpler contracting models for smaller customers so that they can be up and running with Brambles quickly and with predictable pricing. We have piloted this with customers in Canada. The feedback from the customers involved in these pilots has been very positive. We now have a pipeline of projects to implement through the rest of FY22 and FY23, which will systematically address complexity and pain points.

Under the partner of choice pillar, we have been working closely with customers in the UK and US to understand what quality means to them in the way that they use our products and services. Over the past six months we have surveyed hundreds of pallet users, conducted dozens of in-depth interviews and held workshops where customers joined our teams to help them identify how best we can meet their needs.

By looking at the issues through customer's eyes and seeing what matters most for them, we have developed a pipeline of solutions to be piloted in the second half of FY22 and FY23. Again, the feedback from our people and customers has been very positive.

To deliver a transformed customer experience, we also need to enhance our customer systems and channels and our customer data and insights. I'm pleased to say we are on track with both of these. During the first half of FY22, we migrated our key customer systems to the Cloud as part of our wider Cloud migration. This gives us greater flexibility to scale and adapt them to meet future needs.

We have put in place a structured roadmap to regularly improve and enhance our myCHEP customer interface. To ensure we have timely and representative customer data, we changed the way we ask our customers for feedback, resulting in a four-fold increase in responses this half versus last year and to help us move from data to insights to actions, we are using a new customer experience management partner and tools which will allow us to apply advanced analytics to customer data from multiple sources.

Starting in FY23, we will be putting real time customer insights into the hands of our frontline people so they can get rapid customer feedback. These new capabilities and tools will also progress us towards our goal of creating predictive insights so we can focus on what makes the greatest difference for the customer.

The final pillar of customer experience transformation is how we innovate with customers and other partners to create future supply chains. By positioning Brambles at the centre of developing new regenerative and digitally enabled

models, we will create new sources of value for customers and for Brambles. Delivering on this ambition brings together our activities in customer experience, digital and sustainability which is where I'd like to go next.

On slide 28, we look in more detail at our digital transformation. You may remember this slide from our investor day. It provides an overview of our approach to digitally transforming the Brambles business with three value drivers and two enablers.

Our ambition is to harness the power of data to optimise supply chains, be better for our customers and Brambles and ultimately, better for the planet. How we enable this is by building on the previous investment and progress in our BXB digital business and investing further in two areas, data culture and capability and smart assets.

We are investing in data capability and culture to ensure we can turn our data into insights and solve challenges for us and our customers. We are continuing to invest in smart assets so that we can create an ever growing source of unique data to track our products, drive our decision-making and add value for our customers. The metrics we have set for digital transformation support developing these critical enablers and unlocking value across these three areas. I'll take you through our progress on the next slide.

Slide 29 is our digital transformation scorecard. Starting with Better for Brambles. What we're doing here is sending out our smart assets into our network in a targeted way to confirm suspected issues like misuse. We've now deployed these targeted smart asset productivity diagnostics in 12 markets and are on track to scale to 20 markets by the end of FY22, subject to device availability due to semiconductor shortages.

One example of how we confirmed our suspicions was with specific hostile recyclers in the US where returns had stopped so we thought our assets were being sold illegally. We deployed 400 smart assets and were able to prove our hypothesis with 75% of these smart assets being sold illegally. We were therefore able to take action with legal intervention and asset recovery. The value of this in the first half was equivalent to a US$2 million saving in CapEx.

Additionally, we're using desktop analytics solutions to identify anomalies and trends in our existing data that imply misuse or loss so that we can then take action to prevent these issues. To date, we have deployed these solutions to identify stray assets in Europe and we have delivered proofs of concept for additional analytic solutions in Europe and the rollout in the US with scope this half.

Moving to Better for Customers. In the first half, we have prioritised three commercial optimisation solutions focussing on pricing and supply chain initiatives and one customer experience digital solution, which we will fully scope by the end of FY22. These four initiatives use advanced analytics to identify ways we can reduce effort and cost for customers.

We prioritise these solutions because they not only provide the biggest potential value upside but are also a basis for potential future solutions. Data capability and culture is a critical enabler for a sustainable digital transformation. We need to have a single source of truth for our data, and we need our people to have the skills and the willingness to use the data and insights.

This includes consolidating our global customer movement, transaction and supply chain data into one hub that will form the basis for our data analytics tools. We've established the foundations and operating model for our Brambles data hub with two domains now loaded to support analytics, commercial and customer experience digital solutions.

Importantly, we have also made good progress in building digital capabilities across the organisation through upskilling existing employees and onboarding specialist expertise in data science and engineering. We have trained more than 100 of our senior leaders in digital and analytic skills and are on track to train the remaining leaders by the end of FY22.

One of the digital initiatives I'm most excited about is smart asset deployment across full pools. With 100% of the pallet pool tagged with unique identifiers or tracking devices, we get a granular understanding of the supply chain which will enable new business models and solutions to add value for our customers and ourselves.

So turning to slide 30, I'll share some more detail about our approach to smart assets deployment. The current digitisation of our assets can be characterised in two ways. The technology and its implementation. We refer to two different technologies, pallet tags and smart pallets.

Pallet tags can be considered non-autonomous. A separate reader or infrastructure is required to identify the tag which might be a QR code, RFID or other low-cost technology. Smart pallets are autonomous. The ultra-tracker communicates its identification and location without the need for additional infrastructure.

In terms of our four main implementations, targeted diagnostics is where we inject a limited number of smart pallets into a specific part of the supply chain to test a pre-defined hypothesis. The hostile recyclers I mentioned was an example of this approach.

What we call continuous diagnostics looks at the patterns generated by the natural spread of smart pallets flowing organically through the network over time. This allows us to identify anomalies and create hypotheses to test, such as identifying previously unknown pallet dealers. We'll give an example on this on the next slide.

Both of these approaches only require a limited number of pallets to be tracked in the pool. In contrast, serialisation requires 100% tagging of pallets so we can individually identify every pallet in the pool and track them as they enter and leave locations with reading infrastructure, primarily our service centres.

Serialisation-plus consists of some smart pallets together with full pool pallet tagging. The combination of these provides us with breadth and depth of visibility. As you can see on the right of the slide, the different smart asset approaches are in different stages with green representing proven and amber representing probable.

The most mature is our targeted diagnostics where we have already proven this could bring significant asset productivity benefits and we are now proving scalability with very promising results. With continuous diagnostics, we have proven the technology and our ability to deploy and collect data through our UK and Canada trials. We're in the process of proving our ability to turn this data into actions that generate value and I'll go into details of what we've been seeing in the UK on the next slide.

Finally, on serialisation, we have a handle on the technology and are at the stage of working through our deployment strategy and approach. As part of this process, we are looking to confirm that we can detect the tags in our service centres, detect where and when pallets are loaded or unloaded in our facilities and, importantly, that pallets can go through the inspection and repair process with minimal damage or loss of tags. All of these are critical to the viability of being able to roll out serialisation efficiently into a market.

On slide 31, we look in more detail at the trials in the UK. In the first half of FY22, we establish the infrastructure, capabilities and processes required to deploy smart asset diagnostics at scale to capture value in a cost and capital efficient way. These include adding capacity and capability at select service centres to fit, inspect and repair smart assets. Comprehensive market mapping to identify manufacturer, retailer, transporter and pallet dealer locations.

This process, while time and resource intensive, is critical to our ability to bring meaning to the data that we gather from smart assets. Setting up a dedicated team responsible for improving data quality analytics to generate actionable insights. Embedding collaboration between regional teams, software developers and analysts to provide meaningful insights from the data captured.

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This progress has helped us move from, we think, to we know and we act. Highlighted on the slide are some examples of the actions we have been able to take thanks to increased visibility across the UK's supply chain. As you can see, most of the actions we have taken to date are in the area of asset productivity. Specifically, we have reduced losses and increased recovery of stray assets by identifying new pallet dealers, new transporters and undeclared pallet movements, including international flows.

We have commercialised undeclared international flows, uncompensated, re-use and downstreaming of our assets across retail supply chains. We have also identified and converted non-paying users of our pallets to the CHEP system. As you look at these numbers, bear in mind this is based on just a few months of data and has been included here to give you an idea of the insights and action we can already take today.

As we scale up and collect more data from smart assets, we expect to get even more actual insights and a better sense of value potential, not just in asset productivity but also in business development, changing pricing models and importantly, new customer solutions.

Onto slide 32 and a closer look at some of our work around asset productivity. Our approach is multi-faceted, bringing together supply chain, commercial and digital teams to implement a variety of initiatives that facilitate the safe, efficient and fair movement of our products around supply chains.

I've already outlined the early digital work we are doing to identify opportunities to improve asset efficiency across the Group, so I'll focus on the other three areas of our asset productivity approach. Asset control and productivity using smaller trucks to enable more efficient collection of lower volumes. Increasing collaboration with recyclers in the US, providing them with insights into where to collect assets and also giving them opportunities to inspect and repair pallets which effectively extends the reach of our network. Engaging with over 2000 non-participating distributors in the US to improve collections from these higher risk channels.

Asset quality and asset life in addition to the durability initiatives you're all aware of, we have also introduced new processes, technology and standards at 12 service centres across the US, which allows us to remanufacture pallets using components from scrapped pallets.

Changing market behaviours. Making sure that we align our pricing with the cost-to-serve high risk lanes. This alignment has been carried out across our European business, capturing 60% of flows in Europe and we are on track to capture 40% of high-risk flows in the US by the end of this fiscal year.

Working with our customers and retailers to develop collaboration plans to promote and reward the most efficient and effective use of our pallets. Whilst market headwinds are offsetting the early benefits of these initiatives to asset productivity we are confident the foundations we are putting in place will drive a step-change in asset productivity in the medium term.

On slide 33, we look at our continued success in sustainability and ESG. We are making very good progress already on our 2025 targets while continuing to be recognised as a global leader in sustainability because of our low carbon circular model and ambitious regenerative vision.

Sustainability is firmly integrated into all parts of our business and in recent months, we have introduced a new customer-focussed marketing campaign, encouraging other businesses to step into the positive alongside us. We are very proud to have achieved carbon neutral operations early in our 2025 program, but the most important carbon reductions need to occur in our supply chain.

This is why we appointed a Head of Decarbonisation, who is currently engaging with our supply chain function to develop pathways to achieve our ambitious climate positive commitments. There'll be more to share on this at the end of the year.

We anticipated our transformation program would contribute to our 2025 targets and now we have the ability to demonstrate a clear alignment between the Shaping Our Future workstreams and our sustainability ambitions through a feature in our product tracking platform. This will help integrate and align our transformation vision with our 2025 sustainability targets.

Brambles has also collected more external recognition with a top 10 ranking from Corporate Knights, a top employer award in many of the countries we operate in and a number two ranking from Dow Jones. We're also one of 45 companies awarded the inaugural Terra Carta Seal, which recognises global corporations that demonstrate their commitment to genuinely sustainable markets.

In closing, our first half performance demonstrated the resilience of our business despite the extraordinary environment we faced. Our teams around the world have worked tirelessly to support our customers through significant COVID-19 disruptions and shortages. Our scale, network advantage and the supply chain investments we've been making have helped us respond to these cost and supply challenges.

Although we expect ongoing lumber inflation and global supply chain disruptions to impact our free cash flow into FY23, our work to transform is strengthening our business and unlocking value for shareholders and customers. 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 on a speaker phone, please pick up the handset to ask your question. Your first question comes from Jakob Cakarnis from Jarden Australia. Please, go ahead.

Jakob Cakarnis: (Jarden Australia, Analyst) Good morning, Graham. Morning, Nessa. Just two quick ones from me. Graham, maybe you could start? Could you just talk to some of the competitiveness that you're seeing in the global pallet markets and specifically there, maybe in your comments, just reference what you're seeing from white and recycled wood in the US? Then anything that you're seeing on continental EMEA that's potentially changing or revolving into the second half, please?

Graham Chipchase: Sure. Thanks, Jake. So I think we're not seeing any material change in market share, so I think yes, things are stable and of course the reason for that is everybody is struggling to get hold of pallets. Now, I think, without wanting to be too bullish about it, we're in a pretty good shape because of our size and I think the strategic investments we've made both in the US and actually across the world in terms of investments with sawmills and setting up pallet manufacturers and trying to ensure that we've got the resilience to cope with some of these dislocations.

So I think if there were to be a prolonged period of difficulty, we're probably in better shape than anyone else to be able to support our existing customers and maybe then start looking at growing into other areas but I think at the moment, if you want the sort of summary position, I think there is not much change. We're seeing still our customers -sorry, our competitors be very, very disciplined. No one's trying to do anything irrational and we're all trying very, very hard to get pallets available and service our existing customers.

Jakob Cakarnis: (Jarden Australia, Analyst) Thanks for that and just the second one for Nessa. Just on the uncompensated losses. You've spoken in the past about the transformation delivering around a 30% reduction. There's comments today talking about improving asset efficiency and collections. Just wondering what needs to be accelerated, just noting in the slide deck that you are behind plan. Are you seeing any structural changes in how customers are using pallets that could make that recovery of uncompensated losses harder in the future?

Nessa O'Sullivan: Less about uncompensated losses, more that we're going through this dynamic that people have moved from having just-in-time inventory to just-in-case. So we're seeing a lot less pallets coming back than we would normally have.

I think with the increased scarcity of pallets and the value, it's fair to say that there is more unauthorised re-use of pallets or people maybe using or taking up our pallets. We would expect over - you know, that as supply chains rebalance that we get more pallets back. We also expect that while people might use them in a non-compensated way, that they end back in flows and there's a portion of those that we have the opportunity to recover as things get rebalanced.

But we are saying, look, technology can play a big role in us getting smarter about how we pick up pallets, about improving the efficiency of the asset pool and how we can then actually collaborate with customers and other participants across the supply chain, so they benefit as well, with more efficient flows. But just the current dynamics with scarcity of pallets, longer dwell times and our inability to replace all those pallets instantaneously really means that the current situation is not really reflective of what - where we would expect to be over time.

If you have a look at the CapEx-to-sales, while we say we're behind on some of those initiatives where we would have liked to see more underlying change, we're actually not really off in terms of where we had guided to for this year in terms of CapEx-to-sales. It's really more inflationary driven but we're certainly not declaring victory because we haven't bought all the pallets, we would like to buy to meet our customer demand.

I think what we wanted to communicate is, we see this as a critical piece of how we drive improved asset efficiency and improved cash flow in the business over time. We're on it. Graham has explained a whole range of initiatives that we have in place, and we'd expect to see progressive improvement, but market dynamics are playing a role in terms of inefficiency, and we need to see that rebalancing to get into a better place.

Jakob Cakarnis: (Jarden Australia, Analyst) Thank you, guys.

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

Anthony Moulder: (Jefferies, Analyst) Good morning, all. If I can start on pricing, obviously very strong pricing in the half as pallet availability remained tight. Outside of pricing for the higher loss lanes, is there a mechanism for pricing to revert for customers when availability does improve? Or just should we think about this as the new high water mark for pricing?

Graham Chipchase: I think I'll go back, Anthony, to some of the things we said, I think nearly two or three years ago about what are the environments where you could expect a lot of support for a higher pricing environment? I think the three - there are three things. One is, you need to have rational competition which I think we're seeing and have seen for some time. The second is, there needs to be a balance between supply and demand and if anything, a slight shortage on the supply side, which of course we're seeing significantly at the moment.

Then the third one, which we said some time ago was, it'd be good to have a bit of cost inflation. Well of course we're seeing that in extreme examples now. So if you put all of those three things together, there's no reason to suppose that the support for elevated pricing is not going to continue for some time.

Now, having said that - and I think when you look at the split between how we have increased prices, we're very clear that some of it is through the surcharge mechanism, which absolutely will reverse when the appropriately - the underlying commodity price goes down but the general price increases that we've been putting through the business over the last few years, those are largely there to reflect an increase in cost-to-serve in terms of complexity of supply chains and us having a better handle on the relative cost-to-serve for hire. Higher risk lanes versus lower risk lanes.

So there's no reason that those would go down. The only thing you would anticipate is if you start having irrational competition, a massive surplus of pallets in the market and then yes, that would put pressure - downwards pressure because of course you can imagine the competitive dynamics changing. But we don't see that happening in the foreseeable future and our objective is to continue to make sure that we are recovering cost-to-serve and inflationary costs.

At the same time, we've got to recognise that our customers are facing a huge amount of pressure at the moment, so what we're trying to do with - on that front is, whilst desperately trying to keep them supplied as best we can, given the scarcity of pallets, also ensuring that we're doing our best on operational efficiencies, so that we're not passing everything through to our customers and trying to find ways of using technology to make the whole supply chain more efficient, which will clearly benefit everybody.

So I think that's just - it's a long-winded answer for saying no, I think we're - it's - what we've achieved so far, apart from the surcharge piece, will be here to stay but clearly, it's quite a complex situation. I think the other thing that's really important and we've said this before the recent shortage of pallets, we must also start showing our customers that we're delivering value in other ways. So to justify our premier position and the other value we give them is just about being large and having the best network in the industry. So that's - I think that's where I'd stand on it.

Anthony Moulder: (Jefferies, Analyst) Very good. I guess related to that, the surcharges offsetting that higher cost-to-serve but the higher cost-to-serve is gross of the efficiency benefits that you're delivering. At what point do you think that it's appropriate to share some of those efficiency benefits with customers?

Graham Chipchase: Well look, let me start with the - the surcharge piece doesn't reflect the higher cost-to-serve. The surcharge piece is purely to offset the inflationary elements of things like fuel and lumber. So the - at the time when you start sharing things with customers, we still think that we are trying to make an acceptable return on the assets and investments we've made in the business.

So, for example, the return we said three years ago that the investment we made in automation in the US, we were making that with the capital that we had been reallocated from the sale of other assets and we felt that that was a benefit that we needed to keep within the business to offset the general change in the structure of the business and our greater understanding of where the costs were. So I don't think we think we have to give that back at any time but Nessa, do you want to add onto that?

Nessa O'Sullivan: Yes, look, the other comments I'd make is that the investments that we've made across the US in the last three years have added 15% to 20% capacity to our network and when you're short of pallets and have to move things around a network, having capacity in different spots has enabled us to service our customers much better than we otherwise would have.

We also over the last three years, if you look at the Australian market, we've reinvested in the older sites. We had a lot of 20, 30-year-old sites that we'd reinvested in. We've reinvested in new RPC facilities. So we've actually done a lot to add more capacity and also to support our customers and they do see the benefits of that.

The strategic partnerships that we had for lumber gave us access to more lumber than we would have otherwise got when lumber became really, really scarce and some of the other changes that Graham's talking about where we're working with customers, they will see the benefits of these investments where we're able to communicate more directly with customers and help solve problems.

So there'll be more on that sort of customer communication and value as we go through full year and into next year, but customers are already seeing benefits from those investments we made, and I think it's important to note that.

Anthony Moulder: (Jefferies, Analyst) Very good and last one for Nessa, if I could? The US$25 million of deferred maintenance - I think you called out US$15 million in the Americas. Is the expectation that that's caught up or expensed in second half '22? How do you think about that as part of the guidance, please?

Nessa O'Sullivan: As part of the guidance, we've assumed that materially reverses in the second half but obviously conscious it may not all reverse, depending on the level of returns that we get but absolutely we have factored that in. So as we think about the first half, we sort of go, well we've had a range of inefficiencies because we didn't have enough pallets. That's added cost so you know, we re-handled more pallets when you have less safety stock et cetera, so we did have added costs but yes, absolutely we factored in the majority of that reversing in the second half.

Anthony Moulder: (Jefferies, Analyst) Very good, thank you.

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

Anthony Longo: (JP Morgan, Analyst) Good morning, Graham. Good morning, Nessa. Look, I just had a quick question on the loss rate in the US, which look to increase. Just wanted to get a sense as to what your control ratio is on the pallet pool in that region?

Nessa O'Sullivan: Yes, so as you know, we don't publish the control ratios but - by region but you can tell obviously we have shown how much of the increase. So of the US$35 million loss increase, we're saying that's predominantly the US. If you're to look at a split, 80% of the cost of the increase IPEP is really in the US business. What we're seeing in there is, we're seeing much lower levels of returns of pallets and how we provide an expense for this is, if they're out there for longer, that we reflect and we provide for a loss anticipation. That's our anticipated loss rate.

So look, we would expect as we go into the second half and see some of the initiatives, to see some improvement in loss rates. We generally have more of the audits that give us the surplus results weighted to the second half as well but obviously that remains to be seen because we are dealing with unprecedented times.

You know, we've seen a little bit of an improvement in the flow-through ratio post the first half but frankly, we would expect to see that seasonally post a Christmas period anyway so too early to call whether we're seeing the needle moving on that yet. Obviously we'll talk more about that at the full year.

I think what's important for the market and everybody else to see is that we recognise that now as a cost-to-serve. So if you look at the charts, we've shown with inflation increase, we've added that in as an increased cost-to-serve and that'll be part of what we look to recover if that's an ongoing cost of doing business. Meantime, we're working on a lot of self-help to reduce those losses, working with recyclers, working with retailers and customers, and taking other actions to drive improvements.

Anthony Longo: (JP Morgan, Analyst) That's great and second, second one from me, if I may? Just in terms of the overall CapEx, I mean, appreciate pooling CapEx to sales, that it's going to be quite high this year and into the second half. But look, how should we ultimately be thinking about your FY25 targets in that regard? Are you still on track for that?

Then I guess as another point, looking at the supply chains and maybe with the pallet shortages and maybe incremental CapEx that you're spending now, to what extent are you effectively bringing forward some of that CapEx and growth in the pool?

Nessa O'Sullivan: Yes, so if I think about them separately, do we still think we're on track in terms of FY25 ambitions? Yes, at this point we think there's a lot of cyclical noise. In particular market circumstances. The current environment is not conducive to running an efficient pool. I think over time, everybody would expect that supply chains will move to

being efficient as opposed to having excess stock holdings and the current supply chain risks, we wouldn't expect to persist.

So we certainly don't look and think that some of the current disruptions relate to us or have some sort of a flow through to FY25 not delivering on the ambitions. As you think about the current year and where we are, we've guided with the pooling CapEx that we expect. You know, CapEx inflation to remain above what we'd previously guided to. So that's why we're saying assume the second half, basically CapEx-to-sales for pooling is essentially in line with the first half.

We've also guided to - just so as you can kind of think about where you're going, that we wouldn't expect to see the impact of rebalancing on lumber prices to happen until the second half of FY23 but that all remains to be seen and something again we'll continue to update the market on what are we seeing, what do we expect to see?

But we'll continue to make sure that as - we factor those increased costs of operation into how we need to price. But obviously, what you don't do is in the year where you see your CapEx go up for a 10-year asset, you don't expect to recover that in the year it happens.

In terms of non-pooling CapEx, you should expect that we will have more expenditure as we go into the second half as we do more of the automation and as we go into next year as well, there will be additional spend in some of that automation investment. As you know, we've got a very good history of getting really strong returns from that investment.

Anthony Longo: (JP Morgan, Analyst) Absolutely and look, sorry, final one from me. I just wanted to just get confirmation on the CHEP Americas margin comment. So with respect to the US being largely flat, I just wanted to get an understanding of what specifically drove the increases in Canada and LatAm combined? Was that mainly the price that you were getting through Latin America or was there anything else that we should be aware of?

Nessa O'Sullivan: It's a combination of pricing. It's also a combination of operational efficiency and a combination too, we've used a lot of data analytics in Latin America and Mexico, which has sort of taken that business from being a user of cash about three years ago, US$10 million, to now kicking out cash positive about US$40 million to US$50 million a year and we've been using a lot of data analytics there that's continued to sort of help that business to be more efficient.

While it's a developing country, so you always have higher CapEx-to-sales in those particular regions, that business has continued to actually eke out ongoing efficiencies as well as increased pricing reflecting the inflation environment.

Anthony Longo: (JP Morgan, Analyst) Okay, that's great. Thanks, Nessa. Thanks, Graham.

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

Andre Fromyhr: (UBS, Analyst) Hello, good morning. Just a question regarding the effective price you're paying for pallets at the moment and the choice around do you grow, or do you not grow? We see that the sales growth was heavily driven by price with a neutral impact of volume. How much of that is because there's volume growth out there that you're choosing not to pursue or how much of it is because even if you wanted to grow, you physically can't get enough pallets to service?

Graham Chipchase: So I think the first thing to say is, if you look at - I mean, you're right. Obviously the majority of the revenue growth in the first half is pricing but there was volume growth as well. I think we are still seeing some conversions and, in some markets, some like-for-like growth. The issue really is - particularly in the US, it's highlighted where we're cycling really higher than normal growth over the last 18 months because of that COVID-19 impact of much greater at-home consumption. So it's a bit of a sort of cycling impact.

Yes, I think - and particularly in the first half, the beginning of the first half, the pallet shortages we were experiencing in the US back then and now, it's a bit more widespread, our priority had to be to try and make sure that our existing

customers were delivering products to their customers but you'll have seen a little bit in places like the US, we're beginning to start seeing a bit more conversion growth even though the organic growth is cycling - is negative on the cycle.

In Europe, we've been able to - and Nessa put in her - talking through her slides, there was still good growth. So as an overall point, we're saying yes, we're returning back to a little bit of growth. We will think the organic growth point is going to be driven as much by things like economic circumstances, a return to more normal mix between at home and not at home consumption. So getting us back to our normal levels.

The - and as Nessa also said, we would expect that pallet scarcity point to start moderating halfway through FY23 and therefore we'd be able to go back to having enough pallets to service both ongoing customers and going after growth. So it has moderated the ability to get new growth, but I don't think it's the major factor going forward. I think there are other things at play.

Andre Fromyhr: (UBS, Analyst) Okay and just on the transformation program, I guess we can see the dollar values around the short-term spending and the digital spending but the benefits of the program are a little more directional. To what extent should we expect the transformation to actually deliver or contribute cash benefits in FY22? Or are there any already in the half just gone?

Graham Chipchase: I think in terms of the cash benefits in fiscal '22, I think a couple of things to say there. One is, when you - if we go back to the investor day, we always said that this - particularly the investments were going to pay - were going to return not in the first year. It was always going to be going to '23, '24, '25. I don't think anything - we'd see there's anything that would change our opinion on that.

I think - but the other thing to say is, you're looking at the impacts on this year on cashflow. The biggest impact by a country mile is in lumber inflation. So we are seeing some - as you think - described, directional benefits in terms of asset - greater asset returns from the act - from some of the initiatives we've been taking. Using some of the transformational underpins around digital or data analytics.

But it's tiny compared to the immediate impact of asset inflation - of lumber inflation. But what we are saying is, we are very confident from the results we've seen of the pilots that in the medium term, which you can probably read '24, '25 if you want to have a punt, that some of those things are going to really make a big difference and we do say and we've said that we expect to see a material impact in the step change impact in asset efficiency in that medium term.

So I don't think we've changed our view about the impact or the phasing of the impact. I think it's just at the moment, hard to show anything material because of the other factors that are dwarfing them at the moment.

Nessa O'Sullivan: Yes, and I think if you look at the overall cash, I think you have to look at after dividends, free cash flow last year was a positive US$341 million. Then you reverse out and just say, well, lumber inflation by itself, if that had been the only add in there, that was still US$270 million. That's before you go into reversing of US$80 million.

So really, you have to take into account we've had more earnings that have contributed to cash flow, and we've managed to offset a lot of the impact despite the US$270 million. So I think it's really important that you look at the context of how strong the cash flow was last year because we couldn't get all the pallets we wanted. US$80 million has gone back in as well as the US$35 million tax payment that was timing from last year and you're adding on all this lumber inflation.

So there's a fair bit of self-help in there and you wouldn't expect with asset prices escalating from a cyclical commodity change, for us to be able to recover that all at once when you see that kind of escalation. I just think it's important you have that context.

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

Operator: Your next question comes from Paul Butler from Credit Suisse. Please, go ahead.

Paul Butler: (Credit Suisse, Analyst) Good morning. I have a few questions, if I may? Just firstly, talking about the just-in-case versus the just-in-time, what proportion of additional demand is that driving and when things normalise, which I understand you're saying hopefully in FY23, is there a risk that you end up with more pallets than you need and how do you manage that risk?

Nessa O'Sullivan: So thanks, Paul. So first of all, the just-in-case, versus just-in-time, the just-in-case really started happening more than 18 months ago with Brexit and you know, we didn't see it unwind. Then we saw a lot of volatility with rundowns of stock and then as COVID went on and Omicron hit, more and more people are saying actually, we're going to hang on to increased stock until the second half of FY23. So a lot of major retailers have said, we expect to hold additional stock.

So in terms of your question then, do we run the risk that we'll have loads of extra pallets? Well there's - if you think about it currently, we currently don't have enough pallets or safety stock. We're trying to rebuild our safety stock, so if it all changed tomorrow and we got pallets back, that would allow us to go after net new business.

While I don't have a crystal ball, I'd say there's at least one to two points of annual volume from us not having enough pallets relative to where demand would be. So we'd be able to go after new business, we'd be able to rebuild plant stock.

Don't expect it all to unwind all at exactly the same time but it would give us a bit of a CapEx holiday as we want and when you think about that normal replacement for scrapping, et cetera, that we've got, we currently don't see that as being a particular challenge in terms of the unwinding and you know as you're able to service more, sure you might get back - some pallets back but we actually think that that will enable us to service new demand that we haven't been able to get through.

Paul Butler: (Credit Suisse, Analyst) But just to clarify, the additional demand due to the just-in-case, instead of a just-in-time approach, is - would that be a sort of single digit percentages of your pallets that are being used for that?

Nessa O'Sullivan: So Paul, can I maybe talk - think about it this way. So, to service the same amount, we now need more pallets because the just-in-case means people hang onto the pallets for longer. So it's not necessarily - so you have a demand, but you don't get the pallet back. So we need more pallets to service the same level of demand.

So you know, I think you've got to look at it both ways. That as you get pallets back, it allows us to have a more efficient pool as opposed to what volume growth are we not getting? As I said, I can't do an exact science but maybe there's one to two points of growth - volume growth that we don't get because we haven't got as many pallets. But you have to think about that longer cycle time as being one of the key challenges for us as well.

Paul Butler: (Credit Suisse, Analyst) Yes, sorry, what I'm trying to understand is, what's the percentage of additional pallets that you need to service that higher demand?

Nessa O'Sullivan: Well usually if we've a percentage growth, you'd have a percentage - in your CapEx-to-sales, you'd have an increase in your CapEx-to-sales of about a point as well. That's sort of roughly, roughly. Not - again, not an exact science.

The increase in cycle time, if you look at in theory, that might help you - and I'm not quite sure how you're modelling this but if you sort of - we're going in increase, we had to - we needed four million more pallets in the first half just to service the increase in cycle time. In terms of European and other growth, we needed another two million and we had three

million is from the - three million more pallets was that reversal of the US$80 million, which was just catchup to get a little bit more safety stock, but we're still not caught up to have more plant stock.

Paul Butler: (Credit Suisse, Analyst) Okay, thanks. Nessa, if I could ask, on the digital transformation on slide 29, you're talking about rolling out the productivity analytics to 20 markets this year and 30 markets next year. What proportion of your business does that cover?

Graham Chipchase: Well it's not - we're not doing it on a couple of the very big markets, but it's got to be - I'm guessing now, it's got to be a third, I would think, at least. I mean, at least a third.

Nessa O'Sullivan: Look, generally what we want to do is get coverage on this diagnostics, really across all the major markets. But to what extent and percentage that covers, you do a trial first with a smaller number and then you go through progressive rollout as you test various hypotheses about what you need and what you roll out.

Paul Butler: (Credit Suisse, Analyst) Yes, okay and just one last one. On - I think on slide 23, you were talking about targeting the high cost-to-serve markets in Europe and the US where you were hoping to address or put through price increases for 60% of flows in Europe and 40% in US. Those percentages, are they the percentage of the flows that you see as high risk? Can you just explain what those…

Graham Chipchase: For example, in the US, it's 40% of the NPD flows.

Nessa O'Sullivan: Sorry, I was just looking. 23 is the divider page so I was looking a little puzzledly at Graham as to what you were referring. So yes, so yes, it's exactly that. It's increased pricing on higher risk lanes that you have to progressively price and to get to that percentage. So thank you, Graham. I was looking very puzzled here.

Paul Butler: (Credit Suisse, Analyst) Okay and does that mean there's another 60% of flows where you can put up prices in FY23 and onwards to address that risk?

Nessa O'Sullivan: So we have - so internally, yes, we've got milestone that actually are by quarter about the coverage that we want to get to. So some of these are flows that are under contract and we've got a three-year contract cycle as well. So we can't get to all of these straight away. So yes, we have set out and we would expect and Graham referenced to be over 40% by the end of this year. Then we've other targets that get us to a higher percentage but you shouldn't assume that in the next two years you get to 100%.

Paul Butler: (Credit Suisse, Analyst) Okay, thanks very much.

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

Sam Seow: (Citi, Analyst) Morning all. Thanks for taking my question. Hey, just quickly on the 30% reduction in uncomplicated pallets, are we more likely to see that in CapEx or OpEx? Could you perhaps quantify that, I guess at current lumber prices?

Nessa O'Sullivan: So when you were talking about - you're talking about the increased IPEP that we're seeing because of a higher loss rate and where do we see it? Is that correct?

Sam Seow: (Citi, Analyst) In the scorecard for the digital, the 30% reduction in uncomplicated pallets.

Nessa O'Sullivan: Yes. Okay, yes, so where we see that coming through is that that helps with the cash flow outcomes as you go to outer years. The asset efficiency objectives are really - so when you get into the helicopter, we really don't want to get compensations from customers for lost assets. We just don't. We don't want to lose assets and so big piece

of what we want to do with better information is collaborate across supply chains so that we get much more efficient returns.

But yes, the expectation would be then lowering that CapEx burden year-on-year so that you have lower loss rates and better efficiencies within pools because of the use of technology and digital and shared information. Also, shared benefits because that creates a lower cost-to-serve, which then factors into the pricing models that we pass onto customers.

Sam Seow: (Citi, Analyst) Great and I guess on CapEx while we're there, obviously you're increasing your CapEx as cycle times slow but I think - I guess as things normalise, can you give us an idea if we should be expecting a CapEx holiday down the track or how we should think about that?

Nessa O'Sullivan: Well look, as supply chains unwind, you'd expect to get lower numbers of pallets stuck in warehouses and people - you know, with stock on it. You'd also expect there's some - in some cases where people might have hoarded stock, you'd expect there to be more efficient flows. So yes, there could be a bit of a benefit.

I'd like to think that it opens up the opportunity more for us to go after growth. Even in our most developed markets, we still have material areas of opportunity for growth. You think about the US market, half of it is pooled and half of it is un-pooled and we still see that there's opportunity. While not all of it's addressable, we still see that there's more growth opportunities.

Net net is just - and that's why over the longer term, the CapEx-to-sales ratio is a good one to manage it because we'd rather have more pallets available to go after new business but yes, we would expect to see that percentage of CapEx relative to the sales go down.

Sam Seow: (Citi, Analyst) Great and then I guess quickly on automation, it looks like the rollout has been slightly delayed. Can you give us an idea when you expect the bulk of that margin benefit will roll through?

Graham Chipchase: Yes, I mean - so it wasn't - whilst the program for this year has been delayed, it hasn't really got a material impact on the margin for this year or even next year. It's going to be a couple of years out so if it's delayed and we don't know how long it's going to be delayed for because we don't know necessarily what the security of supply on both - and it's not just semiconductor chips for the machinery, it's also there's a shortage of cameras because they've also got chips in them as well. So - as well as the lenses, I think are under a high demand.

So we don't know for sure but if it's - yes, we don't - we're not anticipating it being materially delayed because at some point, the flow of products will become easier and we'll get back on track. So I think if we're looking at taking a slightly longer-term view, we're not concerned about it but just looking at that FY22 target, we said we're just calling it out. There are delays.

Sam Seow: (Citi, Analyst) Does that impact your CapEx profile that you…

Graham Chipchase: It's not material.

Sam Seow: (Citi, Analyst) Okay.

Graham Chipchase: Lumber inflation.

Sam Seow: (Citi, Analyst) Mm-hm. To easy. Thanks for taking my questions.

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

Owen Birrell: (RBC, Analyst) Hi guys. Look, Graham, I just had a quick question on that slide 25, which is the Shaping Our Future matrix that you've got there. Just looking under the customer segment, you referred to the underlying drivers of revenue growth which gives you that 5% to 7% revenue growth and based on the last few years, that implies a 6% to 8%, roughly, profit growth.

Now, I note there that you've written that. That customer segment delivers 55% of the underlying profit growth that you're expecting and that there's an additional 45% of underlying profit growth coming from the asset efficiency and network productivity and so forth. So can I - am I reading this correctly in that your expectation through this plan is to deliver circa what, 12% to 13% profit growth on the back of 5% to 7% revenue growth?

Graham Chipchase: I think what we said was, if you go back to the investor day that we were looking at 10% plus value growth and that was driven off of - I think we said - effectively said was high single digit if we had mid-single digit revenue growth and it was the high single digit earnings growth or profit growth.

So we didn't commit to anything specific, but we did say 10%-plus. I think I probably ought to leave it at that in terms of getting myself into too specific guidance. So I wouldn't necessarily disagree with your analysis so far, Owen.

Owen Birrell: (RBC, Analyst) Excellent. Now, just wondering, with some of these metrics, it's obviously over a - what, another three years', four years' time horizon. Are we going to be able to measure you against some of these? I mean, I'm just wondering if - are you going to be able to provide us with some data such as uncompensated pallet losses so that we can actually measure you against this - these metrics?

Graham Chipchase: Yes, I mean that - so we - when we first put out the scorecard, clearly we were trying to show people what the FY25 numbers were, and we have got detailed milestones by year going out to that point. Now our intent is to start - as some of these programs become more developed, we will start tracking the actual metrics against each of those milestones so yes, that's the plan because I think it's important, as you rightly say, some of these initiatives, you won't necessarily see the benefits for several years.

We've got to be able to show you that there's a roadmap to get from now to the FY25 and there are points along that road which we can check in on and that is the absolute intention of having a scorecard and quite a detailed scorecard. That's why we spoke for 50 minutes rather than the normal 35, because I think it was important to go through what is on the scorecard. I think we'll try not to make it quite so long next time, but I think giving you that detail on each of those milestones in some sort of granular level is important.

Owen Birrell: (RBC, Analyst) That's great and just one on - still on this scorecard, under the sustainability and ESG section, there's a mark there which says 30% recycled or upcycled plastic in new closed loop platforms. So I'm assuming plastic pallets. Just wondering, where - I'm assuming at this point that you're on 0% recycled on closed loop platforms and just wondering in which markets those closed loop platforms actually exist?

Graham Chipchase: So if you remember, I think it was September we talked about the dolly system in the US - in Europe, which had upcycled plastic in it. So that's what we're looking at. It's those sorts of things. It's not all plastic pallets, for example. So it at the moment is quite small but the plan is when we're delivering new plastic products, we have to start looking at a higher degree of upcycled or recycled content.

Nessa O'Sullivan: We're also looking at some innovation that we're not ready to talk about yet but there is something that's - be quite exciting that we might apply more widely across the total pallet pool that will help us with damage rates that we think could have a component of this that could help us as well. So in the background, we have a number of different ways to get to that target of upcycled content that I think will be pretty good in terms of ticking sustainability credentials but also really helping us with the overall business model.

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Owen Birrell: (RBC, Analyst) Excellent and just one final question for me. Given events of yesterday, just wondering if you've got any assets in the Ukraine or in the surrounding regions?

Graham Chipchase: None in the Ukraine and we've got a very, very small business in Russia. So nothing to be - nothing that's material. I think just to expand on that a little bit, for us what we're looking at is clearly the impact on global fuel prices, oil prices, because that potentially has an impact on us as you can imagine but that's something that I don't think anyone can make a judgment on that based on just the last 24-hours. We'll have to keep an eye on that going forwards. But the actual Russian business we have is not big.

Owen Birrell: (RBC, Analyst) Price cost inflation gets passed through.

Graham Chipchase: Yes.

Owen Birrell: (RBC, Analyst) Excellent. Thanks, guys.

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

Cameron McDonald: (E&P, Analyst) Good morning, Graham and Nessa. Just a question on the income-to-CapEx to start with. Can you just confirm that that is all price [unclear], not buying additional pallets versus your expectations from six months ago?

Nessa O'Sullivan: Yes, look, yes, I think it is important to note if you were looking at where we are, three million of the increase is the reversal of the pallets we couldn't buy last year. That's the sort of US$80 million. The increased cycle time has also added four million that we've had to buy. So there is increased pallets and you'd say be it between Europe growth and higher losses in the US is another couple of million. So I'd characterise this sort of 10 million as a combination of the reversal, increased cycle time and some of those extra losses in Europe is probably how I'd characterise it.

But of the US$270 million increase in inflation, that's all pricing. That's just taking the number of pallets we bought and looking at the weighted average cost of pallets last year and what's the weighted average cost of pallets this year? If you wanted to kind of think about that even in split, I know how you guys all love numbers, as do I, you go by 20% of that is related to new pallets and 80% of that inflation is like-for-like same pallets.

Cameron McDonald: (E&P, Analyst) Okay, great. Thank you and…

Nessa O'Sullivan: You probably wanted…

Cameron McDonald: (E&P, Analyst) Yes, you've spoken about the increased cycle times. How - and I know you won't tell me what the cycle time actually is but what is the increase in percentage terms that you think you've seen in the cycle time versus what you would expect normally?

Nessa O'Sullivan: Well I would just take - not that we published it but I would just take what's your total pallet pool and I'd take four million above that and you multiply that by two to get an annualised and say, that might be the percentage increase.

Cameron McDonald: (E&P, Analyst) Okay, great. Thank you and can I just also get some comments around the - you've said that you're going to make a decision on plastic pallets for Costco by the end of FY22. Can I just ask, have your decision - is the decision framework changed from when you articulated it last time? Noting that pallets are much more expensive now.

Presumably the resin price is feeding through to CapEx requirements around plastic pallets. Thirdly, you've got - it's a lower ROIC that you're targeting or accepting through the plastic pallets. Your short pallets anyway so why - can you just - (1) have you changed the metrics and (2) if you haven't, why not?

Graham Chipchase: Well we haven't changed the metrics because the metrics were, we're not going to do this unless there's an acceptable return on the investment. We haven't changed our view on that, and we were pretty broad about the metrics, which were it was a very difficult decision. If the return on capital invested was [10-or-ish], it was a quite a very - quite a difficult decision. If it was between [12 and 15 and above 15], it was quite an easy decision and I don't think that sort of framework's changed.

Your comment about resin prices, well yes, they have gone up but so have wood prices too so it's the relative premium you've got to look at and I don't think that's changed materially. Clearly we have to keep an eye out on forward prices for resin which may not move in the same way as forward prices for lumber. So that's - those are all things that we have to factor in, in making our decisions but the fundamental metrics and criteria have not changed.

Cameron McDonald: (E&P, Analyst) All right, okay. Thank you.

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

Scott Ryall: (Rimor Equity Research, Analyst) All right, that answered the first one of my three so second one, Graham, the - in terms of the digital stuff that you've outlined today and some of the anecdotes around where you've been able to improve performance and things like that, I guess the big one from the outside seems to be the relative ease of getting pallets back from Walmart. Could you just comment on how it helps you deal with Walmart, please?

Graham Chipchase: I don't really want to talk about specific customers or retailers. As you know, with Walmart, we've been working with them very productively and collaboratively over the last few years. There's nothing particularly new and we have been using things like smart assets to help us both pinpoint areas of efficiency where we can make the supply chain work better.

There's nothing new there to report on, other than it continues to progress and we continue to work with them in terms of improving the efficiency and cycle times within that chain. I think what we're talking - looking at more is the scalability of what we've found with people like Walmart already and with territories like Spain and the UK and now Ireland.

So it's much more about how can you scale up the learnings and the insights in a smart way from a CapEx point of view as well as rolling out our capabilities around things like data analytics so that we're getting the - I like the strap line we've been using internally is, we think - because we always used to think we knew what was going on and I think the Walmart conversation is a relevant one here to, we know.

So we actually do have the data that supports the hypothesis that we have or debunks the myth that was out there. I think that works both ways and then so we can act. So with the data and with an agreement with our customer or distributor or a recycler, we have the data and the knowledge to then do something differently. I think that's what we're really focussing on rather than it's being used specifically and with one particular customer, one particular retailer.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, can you maybe just tackle that a different way? What do you believe are the benefits you've been able to bring to Walmart and some of - maybe some other large supermarket changes in - that are national in the US market?

Graham Chipchase: I think what we're seeing is that getting a better understanding of where there are bottlenecks in the end-to-end supply chain so that we can release pallets and then put them back into the system. That's a benefit to us and a benefit to the retailer. We are beginning to start looking at things like how can we help give much better insight on what's going on throughout their supply chain?

I mean, Costco, another good example where I think it's working not only on plastic but with wood to give them and us a much better understanding of where there are potential areas to speed up what is already quite an efficient supply chain.

So yes, it's just about better insight and being able to do it collaboratively with customers and retailers rather than it being us saying, we think this is going on, we don't like it, we're going to change our commercial terms. It's a completely different mindset change. It may end up - we think it'll end up with much better results but even if it ends up with the same level of results as before, we're doing it in a completely different way with our customers, which I think has got to be the right way to go.

Scott Ryall: (Rimor Equity Research, Analyst) Okay and then my last question, there was some speculation about KKR last week and I don't expect you to comment on them specifically, but these types of entities will look at terms that are significantly underperformed, perhaps because of long-term things that they've set out that haven't perhaps been - the value of which hasn't perhaps been recognised by the market. I think the post-September investor day is a pretty good example of some of exactly that.

Maybe it's in - maybe the response you gave to one of the earlier questions is it but how will you better, I guess, hold the hand of the market with respect to the upsides of the significant spend that you are undertaking to transform and improve your business and your service.

Graham Chipchase: So I think that's - as you say, I tried partly to answer that before. I talk about this is why we're spending a lot more time talking through the scorecard and particularly yes, what we're doing around customer experience and digital.

So yes, it's important that - and that when we look at the feedback we got from September, I don't think we articulated well enough what it is we were trying to achieve with the digital transformation and the transformation generally. So yes, we're trying to address that, and it will take time, undoubtedly and we'll continue to communicate and go into detail on it.

But I also think that there's an element of people not understanding the risk-adjusted approach we did set out in September about the capital investment. We did say it's split into tranches, and I don't think, for some reason, that really is terribly well understood. So the fact that we are spending the first tranche on stuff that is extremely low-risk because it's automation that we've done before, we've proven the returns and we're very comfortable and confident about the returns, that - people should be able to take that and accept that and hopefully give us credit for what we've done over the last few years on that.

Then the next tranche was around investment in smart assets, which is why I spent some time talking about smart assets and where we are gradually proving the value that we think is there through the pilot and then obviously there's the scale up.

Now, we've been trying to say look, we're not going to do the scale up unless we see a very clear link to value. So what we're going to be doing over the next six months, nine months, is showing where we think that value is and articulating and quantifying that value. So that again, hopefully, will make people much more comfortable about the second tranche.

The third tranche was the one where we did say, look, this is about customer solutions which we don't know what they look like today. Didn't back in September. We know that there's - it's going to require some investment in '24 and '25 but the benefits don't come till '26, '27 but we're also very clear, we will not invest that third tranche unless we see the value. We may not - we won't be able to answer that question for some time.

So you either take the capital out of your numbers for those last couple of years or you put the capital in and assume we get a decent return on it in '26, '27, '28. I mean that's the way I'd look at it. I do think that we didn't do a brilliant job of

communicating back in September. We are trying to fix that and that's why we're doing what we're doing today, and we'll continue doing it.

It's just a little unfortunate that the macro-economic inflation stuff is swamping, I think, what we're making a very good solid progress on some of these initiatives around things like asset efficiency and the digital transformation. But I think the only real answer to that is, time will tell and we're very confident, but we understand that people want to see the money rather than us telling them how great it is. So we'll just have to wait and see and give - as we said earlier on, constant and regular feedback on our progress via the scorecard.

Scott Ryall: (Rimor Equity Research, Analyst) All right, good. Thank you, that's all I had.

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

Matt Ryan: (Barrenjoey, Analyst) Thank you and good morning. I've just got a few very quick questions, predominantly around the situation in the Americas. First question's just whether you lost any contracts based on price over the last six months?

Nessa O'Sullivan: So if we look at our Americas region, you'd expect in any given year that we'll have to - we have to take pricing. There may be some as we've priced contracts, that we may not have retained a contract and you can see there is still a bit of volume growth in there. So look, net net, no major contracts have been lost but the normal commercial negotiations occur, and you expect to see normal in-and-out of some customers but nothing major.

Matt Ryan: (Barrenjoey, Analyst) So I guess what I'm pointing towards specifically is the shortage of pallets and potentially the balance of negotiations falling into your favour. I guess, versus history though, is it difficult to see customers moving because of price at the moment? That's really at the core of my question.

Graham Chipchase: I think the other way I'd look at it is whilst clearly customers don't like there to be a shortage of pallets and they don't like the fact that in high inflation environment, we're having to raise prices. What we have found though is that we - it's led us to have a much more regular debate and conversation and collaboration with customers because we have to, to ensure we understand what their daily and weekly needs are by location for pallets.

Actually, if anything, it's some - in many cases, it's strengthened the relationship with the customers and we have seen contracts being renewed early than expected and extended because people have said, okay, we may not necessarily like the short-term impact of this but we do recognise the fact that compared to the competitor base or white wood in the US, you have got the best network and we know because of your scale, you're doing strategic things around trying to secure supply as best you can and we think that's something we need to rely on in the future.

So I mean that's probably a glass very half full version of what's going on at the moment and others will take a different view, but I don't think I would necessarily say there's pent up demand to ditch us when things reverse. I don't think it's like that and I think the fact that we've taken the time and spent a lot of time at a very granular level with our customers trying to help them through this, has probably done us a bit of good. I'm not saying it's perfect, but I actually wouldn't be quite as negative about it as you might want to be.

Nessa O'Sullivan: No and there's probably more customer wins for both us and our competitors because everybody's in a pallet constrained environment and you would normally expect both us and our competitors to get some growth from white wood conversions.

Matt Ryan: (Barrenjoey, Analyst) Okay, thank you and how do you judge the price that you need or, I guess the cost-of-serve in your language, for each customer? Is it on an earnings outcome or on a cashflow outcome?

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Nessa O'Sullivan: So as you can imagine, we have pretty detailed pricing models and so even if you just take it very fundamentally, we have areas where we end up with excess pallets and we have areas where we have deficit pallets. If you happen to be a customer who is allotted flows that are coming from areas where we normally have excess pallets, you're going to get a better pricing in terms of a cost-to-serve, relative to somebody who's in deficit market. That's very, very simplistically but that's one factor.

Then your pricing also depends on where your flows are going to. If you are having a fair percentage of your flows going into higher risk lanes, then you're going to get a higher issue price than somebody who has flows going mainly through participating distributors, which have lower losses. Then there's the piece about advantage to the overall network flows and footprint and we also look at what's the scale of customers and what they bring to us and it's sort of the value they bring to us.

So look, all those factors come in so we look at what are the costs? Then we look at how many pallets does it - what's the efficiency of the flows to those particular - to the lanes those customers are using? Because obviously if a pallet has a longer cycle time, then that adds to the cost.

So all those factors are inputs, and we update those in a pretty dynamic way, depending on what happens on our experience with flows declarations et cetera. This is where technology can really help us to be a lot more dynamic over time and also use that information to help our customers to help us with more efficient flows which they can then benefit from as well in terms of flowing through to pricing.

Matt Ryan: (Barrenjoey, Analyst) Okay, that helps. Then the last question's just related to that and again just focussing on the America's for a minute. Do you think that your contract structure is nimble enough to adapt to changes in cost inflation? I fully recognise that things are very abnormal at the moment but just wondering whether you're able to move quick enough or whether this idea of a historical three-year type contract structure is a little bit too stagnant?

Graham Chipchase: So I think if you think about your question, when you're talking about, are we nimble enough to react with inflation? Well I think the answer is yes because the surcharging mechanism is not three years, it's more regular than that. So I think that bit of it is covered appropriately and if you think about the cost-to-serve point, well the average is three years. Some of them are not, as you know. Some of them are one, some of them are a bit longer.

I think as long as - we shouldn't be pricing on a short-term change in cost to serve on a long-term contract. I think our customers would not be happy about that at all. I think we have got a look at the pricing model on a longer-term view of what the market model is.

So for example, if we felt that there was a systemic change in the business model in the US through, for example, we're going from just-in-time to just-in-case and that was there forever, then yes, we would have to change the markets - the contract structure and it would take three years to get through 100% but you've got to look at the flip side of that, which is the benefit for us in having some long-term contracts. Notwithstanding that things might change, we - it's good to have the volume underpinning the network for a period of time which is not just a year.

So I think you've got it - there are swings and roundabouts about some having longer term contracts as long as in those longer-term contracts, the ability to re-price for things which are changing in a more volatile way, like cost inflation, is there. Which my view is, we've now fixed that.

We didn't have that four years ago, we do have it now and I think that's a major change and all kudos to our commercial team in the US for being able to get through that and put us in the position we're in today because if we hadn't done that work over the last three years, we'd be looking at a very different set of results today than we are.

Matt Ryan: (Barrenjoey, Analyst) Yes, I guess I'm probably talking more about the stuff that you don't have surcharges for. So things like lumber on the CapEx side and some wage inflation on the OpEx side. I mean, I think if we would have

been speaking 12 months ago, both of those things looked elevated and we might have presumed that they might have come down by now.

I think your 2023 commentary suggests that if it stays at these levels, then you could still expect an impact to cashflow. So has your thinking changed at all because of those exposures and your ability to move quicker than in the way that you've just described?

Nessa O'Sullivan: So Matt, a couple of things. First of all, there's no doubt that the labourers becomes more challenging and there has been a scarcity and therefore more inflation. So for us, it under - it really underscores the importance of continuing on this journey of more and more automation, which is a hedge against future inflation. So even the returns we've got are likely to actually be better because we have this, I suppose cost savings, in addition that we would have been exposed to.

So I think there is that piece. We also do continue to look at what are the indices that we use in contracts? Should we vary them and in certain contract renewals now, we've had slightly different indices that we're looking at because they don't always map. You can't always tell exactly where the cost increase is going to come from, and market index may not reflect your costs for different reasons.

So we continually to look at - continue to look at, are they the right indices? But you know - and as we look at indexation, we have in Europe, for instance, taken additional charges, for instance, for heat treating pallets because that was a new cost that came in relative to where we've been because of regulations post-Brexit.

We have also gone back and taken, instead of just taking indexation on 1 June, we took extra pricing in Europe in October and there's extra pricing we've also taken in January. So I guess there's a piece about for customers, as Graham said, swings and roundabouts. We continue to look at it, we continue to turn our mind, are we doing this as well as we could? We continue to try different pricing models and different indices to see if they make sense.

Obviously we have to land somewhere that our customers are also happy with and feel that we're not going to price gouge, but we are very focussed on if there's a permanent change in cost-to-serve, that we capture that and work out ways to recover it. You should get some comfort, obviously, from slide 11 on showing what we managed to recover and how we're also now grouping higher losses that are we know impacted by some of the changes in market dynamics. That we'll continue to look at it that way and challenge ourselves.

Matt Ryan: (Barrenjoey, Analyst) Thanks, Nessa.

Operator: Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Justin Barratt from CLSA. Please, go ahead.

Justin Barratt: (CLSA, Analyst) Hi, guys. Welcome to sunny Sydney. Look, a lot of my questions have already been asked but I just wanted to ask one. Just in terms of your update on your free cash flow post dividends, I just wanted to ask how we should think about your dividends over FY22 and '23? Just given that those free cash outflow expectations, could the dividend, I guess, be at the lower end of your policy range? Or can you use your stronger balance sheet to support dividends being at the middle end of - middle part of that range, sorry?

Nessa O'Sullivan: Okay so I have to start by caveating everything by saying it's the Board makes - obviously has to approve the dividend that we propose every - every interim and final dividend requires approval. We have got a policy out there. Needless to say, you need to put the net free cash flow outflow of US$148 million in the context of US$341 million of positive free cash flow post-dividends last year with some timing that we knew was going to reverse.

You need to factor in the cyclical impact this year and say, we build our business to be able to invest and reward shareholders along the way and have ourselves enough buffer that we can cope with cyclical changes in some of these costs, particularly as it relates to long-term asset investments.

So as we sit today, we see no reason why the Board would not be predisposed to continue to reward shareholders. As at the end of this half, we've US$1.1 billion of undrawn committed facilities and US$200 million - or it's US$194 million, US$200 million of cash on hand and we have very, very conservative net debt to EBITDA and other ratios.

So I think you should get some comfort from that, that we are committed to rewarding shareholders and you've seen we're continuing with the buyback. You see the strong EPS growth as a result of that.

Justin Barratt: (CLSA, Analyst) Very clear. Thank you.

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

Graham Chipchase: Great, well thanks very much and yes, you're right, we brought the lovely sunny weather with us from London so - but it is great to be back here after two years and I think we're hoping to see some of you, I'm sure, over the next week or so and we're really looking forward to that. So thanks for your questions and thanks for all your time today.

End of Transcript