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Start of Transcript

Graham Chipchase: Welcome to our fiscal '19 results presentation. As usual, I will do a brief overview, we'll hand over to Nessa, and then I'll come back again and do a bit more about strategy.

So, if we look at the 19 results, sales revenue growth, 7%, and I think that's reflecting both our performance on pricing, but also very strong volume momentum across all of our regions. The underlying profit up 2%, again strong revenue driving that, but also offset by Group-wide cost inflation pressures, as well as continued challenge in the Americas, so a few things there. One is the changing customer/retailer behaviour, which we've talked about before, as well as US network capacity constraints, which we've talked about before, and the stringer-to-block conversion in Canada, and higher cost-to-serve in Latin America, and Nessa's going to talk about that in a bit more detail later on.

Our self-help strategy in the US, it's been working. You can see we've made good progress on the automation, on lumber procurement, productivity, and pricing initiatives, and they're all on track to deliver progressive margin improvement through to the end of fiscal '22.

We had a very good year on free cash flow in fiscal '18 in terms of providing enough cash to pay the dividend and the investment, but in 19 you can see we were down just under $90 million, and that's largely due to the $73 million we invested in the US automation programme, which clearly was funded by the divestment of businesses like HFG in prior years, but also only having 11 months of IFCO cash flow. ROCI of 19.5% remains very strong and well above the cost of capital.

So, moving on to IFCO. So, we sold IFCO in June. That completes the programme now of selling the major assets, ad leaves us in a very streamlined and focused place going forward. The sale of IFCO provides us with just under $2.5 billion net proceeds. It leaves us in a very unique, I think, opportunity to re-shape where we're going in terms of direction, making us, I think, fit for the future and in a strong position going into the 2020s and beyond, and I'll talk about that a little later on.

If we just look at what we're doing with the cash proceeds, so as I say there are $2.4 billion net proceeds, so as we explained previously, just under $2 billion we're going to return back to shareholders in two ways. So, the first is the on-market share buyback of $1.65 billion, which we started in early June 19, and we've purchased 6 million shares so far at the cost of AUD77 million, and we expect, based on normal run rates of what we've been buying, that programme to be finished in about early fiscal '21.

The second element of the proceeds going back to shareholders is around a capital return of special dividend, so there's a capital return of AUD0.12, which is subject to our shareholder approval in the 2019 AGM, together with a special dividend of AUD0.17 per share. Then, the balance, which is about $0.4 billion, is going to be used to pay down debt, and again we talked about that previously. I think all of these things leave us in a position where we're very much focused on maintaining a strong balance sheet and investment-grade credit profile.

So, again, one of the other things we talked about when we announced the divestment of IFCO was that we would, as a Board, reassess our dividend policy. So, as a result of that review, we've decided that from starting with the fiscal '20 interim dividend, we'll be moving to a payout ratio policy. So, the main reasons for doing that, clearly, are to align

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shareholder payments with movements in earnings, but also to support future growth opportunities, all the time maintaining the strong investment-grade profile. The way we'll do that, then, is target a payout ratio of between 45% and 60% of underlying profit after finance costs and tax, and of course subject to our cash balances. The dividend will be declared in US cents, and then paid in Australian cents, and because of the ongoing share buyback programme we're going to continue to suspend the dividend reinvestment plan.

As I say, the whole point about this is that we continue to be committed to strong balance sheet and investment-grade credit profile.

Just moving on a bit to the operating landscape and the outlook for fiscal '20. So, it's not all bad news in terms of the operating environment. If you look at the first couple of points, those are positives in terms of, we still have large addressable opportunities, both in developed and emerging markets, and competition, whilst it's robust, is still very rational. Again, I think that's an important point to remember if we're looking at competitive activity.

Now, we are seeing a slowdown in major economies, and yes, I might be British and therefore Brexit might be top of mind, but it's not just about Brexit in Europe. I've been saying this for some time to you, that we thought there was a slowdown coming in GDP, particularly in Germany, France, and we're now seeing that. I think Italy, as we've seen, a snap election's going to take place very soon, so I think across Europe we're going to see a slowdown. It's not just related to Brexit.

On top of that, whilst nothing's happened yet, I think the contagion that could come from a US-China trade war is something we also have to bear in mind, and both of those things - the European slowdown is definitely going to be something we have to face in fiscal '20, and it's possible that a wider contagion could also be fiscal '20.

On top of that, something else that hasn't changed but is still present is that the retail landscape is changing, and of course that means that the business models of our customers are changing, and it's putting more and more pressure on the supply chain and us as suppliers. We continue to see inflationary cost pressure, and although the rate of transport and lumber is moderating in some markets more than others, we still expect to see inflation in our main markets, particularly Europe and the US.

Finally, if we look at the financial outlook, so if we take into account what we've been talking about around inflationary pressures and the macroeconomic pressures, and also take into account AASB16 which, even though I'm an accountant, I will be more than happy to let Nessa explain in a minute, our view is that the revenue growth in fiscal '20 will be at the lower end of our mid-single-digit growth objective, and I think that is particularly valid when you think about Europe and the automotive sector. Again, we've talked a bit about automotive. If you read any paper, you see more and more of the large automotive OEMs are cutting production, and that has an impact because we have a reasonably--sized automotive business, particularly in Europe.

So, with that sort of revenue growth, we're anticipating underlying profit growth, including the impact of AASB16, being in line with the revenue growth or slightly above, and I do think that would be a very creditable performance in the context of the larger macroeconomic position as we go into fiscal '20.

So, with that, I will hand over to Nessa to go through the numbers.

Nessa O'Sullivan: Thanks Graham, and good morning, everyone. So, now to go into more details for the results release. So, before getting into the FY19 results, I'd like to take a moment to outline how the new accounting standard introduced during the year and the sale of IFCO are presented in our financial statements. We'll also come back to the impact of AASB16.

So, starting with the accounting standard changes. The new revenue standard, AASB15, and financial instrument standard, AASB9, both came into effect on 1 July 2018. So, the 2019 income statement and balance sheet have been prepared in accordance with AASB15, and the 2019 balance sheet has also been prepared in accordance with AASB9. It should be noted that neither accounting standard has any impact on cash flow.

Following the completion of the sale in 2019, IFCO has been classified as discontinued operations in FY19, with the prior year comparators in the income statement being restated. The FY19 balance sheet reflects the sale of IFCO, however the FY18 comparative balance sheet has not been restated, and that's in line with accounting standards. To assist with your review of the year-on-year comparisons, we have added additional footnotes in the accounts this year.

From a cash flow perspective, IFCO cash flows were included in the Group cash flow for 11 months, up to the date of divestment at the end of May, and that's in the 2019 cash flow. The prior year, the cash flows for the Group are unchanged, and therefore include the full 12 months of the IFCO cash flow.

So, turning to our FY19 results on slide 9. Group sales growth of 7% is ahead of our objective to deliver annual revenue growth in the mid-single digits. Underlying profit growth of 2% was driven by the strong sales performance and productivity gains which more than offset ongoing input cost inflation and broader cost challenges across the Group. Significant items for FY19 include $945.7 million gain on the sale of IFCO, and that's reported in discontinued operations. Significant items expense in continuing operations of $62.8 million includes IFC sale-related items, and expenses related to Latin America, and we'll cover that in more detail in the presentation.

Net finance expense decreased by just under $15 million during the year, and that was largely due to the debt refinancing that we did in FY18, as we as having lower debt balances following the divestments in FY18 of HFG and CHEP Recycled, as well as the benefit for the last month of the year when we had the $2.4 billion proceeds from the IFCO sale banked.

The tax expense increased $76.5 million, but the increase is largely due to us cycling the $65 million one-off credit that we reported last year related to the change in the US tax regulations. In FY19 we had the introduction of US BEAT tax, and that drove increased tax expense and contributed to the higher underlying full-year effective tax rate of 29%.

Profit after tax and statutory earnings per share both increased by a very impressive 112% due to the IFCO gain on sale of $945.7 million, which is recognised in discontinued operations.

Turning to slide 10, sales revenue growth was 7%, and pleasingly it reflected meaningful contributions from all the CHEP segments globally. As you can see from the chart on the right-hand side of the slide, volume growth remained in line with the prior year despite increased price realisation in FY19. Price mix growth increased to 3% in the year, up from 1% in FY18, and that's reflecting pricing actions taken across the Group in response to input cost inflation, and higher cost-to-serve in certain regions.

Volume growth was driven by net new business growth of 3%, and 1% organic like-for-like growth. Our pallets business continued to win new customers, as well as expand into new lanes with existing customers. Volume growth was particularly strong in European pallets, as well as in the European automotive business, noting that the European automotive sales contributed 1 point to the overall Group revenue growth following a large contract win in FY18.

So, looking at the Group underlying profit in more detail, the sales contribution of $177 million was strong, reflecting sales growth net of volume-related costs with the exception of depreciation and IPEP, which are not shown out of volume. Depreciation increased $34 million due to the growth of the pool to support strong volume growth across the Group, as well as increased investment in supply chain initiatives such as the US automation. Transport costs net of efficiencies and US transport surcharges increased $44 million, and that was driven by third-party freight inflation in all

markets as well as additional relocations in the US related to service centre capacity restraints, as well as changes in retailer and customer behaviour which meant that we had additional transport lends.

Net plant costs increase at $44 million reflected additional repair and handling costs associated with both the US pallet quality investment programme, as well as impacted by the automation projects. We also had costs associated with the stringer-to-block transition in Canada, which includes the impact of an inherently higher damage rate in relation to block pallets.

IPEP expense increased $31 million during the year. $18 million of this increase related to volume growth, market mix changes, and higher unit pallet costs, particularly in Europe. The balance of the increase of $13 million relates to Latin America and IMETA regions where additional expenses were booked to reflect assessments of high risk of asset recoverability in these regions. Other costs increased $8 million as investment in additional resources were made to support commercial and asset management initiatives across the Group. This was partly offset by a year-on-year benefit as we cycled an operating loss in the HFG joint venture from the prior year.

So, let's look in more detail at cost inflation. So, one of the key things that we highlighted last year when we talked about FY inflation was that largely, the impacts of inflation were weighted to the second half of the year. The net inflation impacted on underlying profit in FY18 was $19 million, and that was primarily driven by transport inflation with lumber inflation largely impacting CapEx and increasing the FY18 pallet purchase cost by $12 million.

So, in FY19 we then had a full-year impact of the higher inflation cost. However, offsetting the higher costs, we actually had higher recoveries from pricing and surcharges which were being progressively put in place through FY18 and 19. The net inflation impact on the FY19 operating cost was $10 million, which is $9 million lower than the impact in FY18.

In FY19, transport cost inflation continued in all markets, however the rate of inflation did slow down in the second half of the year. Lumber inflation also moderated during FY19, and this is reflected in the full-year impact on CapEx, which is reduced from $21 million in FY18 to $8 million in FY19, and this is set out in more detail in the capital expenditure slide, which we'll get to later.

So, in Europe, our primary mechanism, when you think about inflation, our primary mechanism for recovery is the price indexation, and this is present in all the contracts that we have and covers labour, lumber, and fuel. When you think about it, the indexation is largely reset once a year and at the start of the year. From 1 July is traditionally our reset date. In the US, however, how we recover inflation is different in that it's largely through transport and lumber surcharges, which are recognised as an offset against the related cost in the income statement.

As we consider, then, having looked at what's happened in 18 and the exit rate in 19, and looking at the potential impact of inflation in FY20, we expect transport inflation to continue in all markets, although we do expect the rate of inflation to be lower than in FY19, in line with industry trends.

In terms of lumber inflation, which is predominantly a driver of CapEx, moderate inflation is expected to return to the US following deflation in FY19. In Europe, we expect lumber inflation to continue, albeit at a lower rate than the current year.

In addition to transport and lumber, we also expect wage inflation to increase given unskilled labour shortages in most markets. We also expect to see increased property inflation in line with higher demand for industrial warehouses, particularly from the e-commerce players.

Turning to our segment results and starting with CHEP Americas on slide 13. Sales revenue of 7% was driven by solid volume growth, including US volume growth of 2% and ongoing expansion with new and existing customers in Latin America and Canada. Price growth improved in the period, with the US effective price being at 4%, and that's including

of the surcharges that offset against the cost. An increased price realisation was also delivered in both Latin America and Canada, reflecting price recovery of higher cost-to-serve in both businesses.

Segment margins declined by 2.2 points during the year, with the US accounting for 1 point of the decline, and the balance driven by Canada and Latin America. Price realisation and efficiency gains were insufficient to offset input cost inflation and broader cost challenges in all three pallet businesses. I'll outline this in more detail in the next few slides. Overall ROCI declined by 2.2 points, driven by the lower earnings and increased capital investment to support volume growth and supply chain initiatives in the region.

As we look to FY20, we expect US pallet margins to improve by approximately 1 point, in line with our FY22 margin improvement expectations. We anticipate cost headwinds in Canada to continue, reflecting higher ongoing costs associated with running two pallet pools, and recognising the higher damage rate associated with block pallets.

We would expect to see progressive improvement, however, in Latin America over the next three years through improved pricing cost recovery, reduced flows into higher-risk areas of supply chain, and improved asset collection and asset management across the supply chain.

Breaking down CHEP America's profit and margins further, the waterfall chart on the left-hand side outlines the key drivers of the underlying profit in the region which largely reflect the inflationary pressures and broader cost challenges outlined in the previous slide and in the Group profit bridge on slide 11. I would draw your attention to the margin performance chart on the right-hand side. This chart breaks down the phasing and contribution to margin decline from the three regional businesses - US, Canada, and Latin America - across the first half of the year, second half, and full year.

Year-on-yea, CHEP America's region margin decreased 2.4 points in FY19, with a relative improvement and shift in business mix contribution to the margin decline in the second half of the year. Taking each business in turn, starting with the US, which is represented by the dark blue in the chart, the US business accounted for 1 point of the FY19 Americas full-year margin decline, and only 0.4 points of the second half decline. The moderation in the second half reflected increased cost recovery through pricing initiatives, supply chain efficiencies, and more favourable comparators as we cycled higher levels of lumber and transport inflation in the second half of 18.

Latin America and Canada, represented by the other bars in the chart, collectively accounted for 1.3 points of the FY19 Americas margin decline, and accounted for most of the margin deterioration in the second half of the year. In Canada, margins were impacted by the stringer-to-block transition, which reflects additional costs associated with managing two pools, and higher damage rate on block pallets.

In Latin America, the margin deterioration to second half reflects increased cost-to-recognise, a higher risk of cost in the region, and investment in overhead and other resources to improve commercial and asset management outcomes.

Looking, then, at Latin America in more detail, and providing more context for that, and specifically at the cost pressures in the region and the mitigating actions we're taking to improve asset management, pricing, and improved commercial terms to reduce costs, increase cost recoveries, and drive behavioural changes across the supply chain to improve asset accountability.

So, if we start with the context of the historical operating model. Cycle times in Latin America have historically been high for two key factors. Firstly, the wide geography and lack of network density both contributed to longer cycle times in the region. Also, the ability to control retailer and customer behaviour in developing markets tends to be challenging, with longer cycle times before scale efficiencies occur.

Given our experience in other regions, we would expect cycle times to reduce over time as the business grows and network density increases. Despite strong growth, however, and increased density in Latin America over the last number of years, we weren't seeing a commensurate reduction in cycle times. In light of the extended cycle times, we changed our accounting methodology to recognise increased cost-to-serve in FY18 with a higher IPEP charge in underlying earnings, and significant item expense relating to asset flows in prior periods.

Recognising the need to address both cost and cost recovery in the market, a new management team was put in place. A new President and CFO have extensive commercial supply chain and asset management experience, and in the first half of FY19 a detailed three-year business improvement plan for the region was developed, which we started implementing in the second half of FY19.

The plan itself focuses on transforming asset control processes to reduce capital intensity in the market, increasing the level of asset re-collections direct from stores and from higher-risk channels, market mapping to identify new collection points to enable us to establish commercial relationships, and to also include those in our collection network. We are also focused on implementing pricing to recover cost-to-serve and to improve asset accountability across the supply chain, and active management of flows to reduce the flows going into the higher-risk areas of the supply chain.

So, we've invested in overheads to enable the asset recovery controls and improved commercial terms to be implemented, and since activating the plan in the second half of 2019 financial year, we've gained improved insights into the market, specifically around asset collection risks. These insights have then informed an updated assessment of the risk to recoverability of assets in certain parts of the market and have resulted in an $11 million increase in FY19 IPEP expense in underlying earnings relating to the current-year flow, and a $21 million significant item expense relating to historic flows.

Importantly, we've taken actions to actively reduce higher-risk flows, and increased pricing to reflect the higher cost-to-serve. Despite the implementation only beginning in the second half of the year and therefore having a short time to have an impact, the business improvement plan is already delivering strong results. We are seeing enhanced asset controls and a strengthened commercial capability being evident within the team, but also in terms of commercial actions being taken. Higher pricing has been implemented in the fourth quarter at a level of increase well above inflation and supporting cost recovery. We have also seen record levels of asset re-collections in the market in the FY19 year, and importantly we have already seen a material improvement in the FY19 CapEx-to-sales ratio, which is evidencing lower capital intensity in the business. We've also identified other opportunities to further improve the business model.

These early wins are giving us confidence in our plan, and the ability to deliver progressive improvements over the next three years which are embedded in the plan.

Turning now to the US pallets business. Looking at US sales revenue in more detail, you'll note the quality of the sales growth with well-balanced volume and pricing growth being realised. Price realisation improved 3% in FY19, up from 1% in the prior year, and that's reflecting the pricing actions we've taken to offset inflation and higher cost-to-serve in the business. Volume growth was solid at 2%, which was particularly pleasing in light of the improved price realisation.

Turning to slide 17 and our US pallet margin improvement initiatives, you'll be familiar with this slide, which we've shown before, which outlines the key initiatives we're implementing to improve margins over the next three years. We have made good progress in FY19 in relation to both pricing and the automation and lumber projects, which remain on track to deliver the expected margin and improvements to FY22.

Our annual network and transport optimisation has delivered incremental supply chain efficiencies in FY19, and we expect ongoing savings from this initiative over the next three years.

After 18 months of inflation, we're now well-progressed through renegotiating our portfolio of contracts to better capture the cost-to-serve through contract repricing and surcharge clauses which help to insulate our business from future inflationary pressures. In FY19, we delivered effective pricing of 4% if you take price realisation on the top line, and add the surcharging realised as netted off against the cost line.

As indicated by the progressive darker green circles in the table, we expect increasing benefits from pricing actions over the next two to three years as we further renegotiate our contract portfolio, bearing in mind that the average length of a contract is three years. The largest contributor to the outlook margin improvement is expected to be delivered from the return on investment, net of related depreciation, from our US automation and lumber initiatives. Both remain on track. These programmes are funded from the FY18 asset actions which were undertaken to reallocate underperforming capital invested in the business to be reinvested in high-returning investments in the core business.

The FY18 asset actions delivered $252 million in proceeds. $102 million came from the sale of the US Recycled business, and $150 million came from the shareholder loan repayment as part of the exit of the HFG joint venture. These funds are now being progressively reinvested in high-returning projects.

Summarising the slide, collectively we're confident that these initiatives will deliver 2 to 3 points of margin uplift from the first half 18 levels by FY22. Given the phasing of benefits from each initiative, we expect margins to improve at a rate of about approximately 1 percentage point per year in FY20, 21, and 22.

So, looking - given that the weighting of the improvement is towards the automation project, looking in more detail at that project, the overall project was a planned investment of around $160 million over three years to increase automation level in the US from about 50% today to 85% by FY22. The project will automate between 50 and 60 plants between FY19 and FY21, and is expected to have a five-year payback, which is consistent with other automation projects undertaken in both Europe and previously in the US.

The funding for the projects, as referenced earlier, is coming from the asset actions which we completed in FY18 from sale of Recycled and the exit of HFG. Since the launch of the project, we have now automated 20 sites, and we are pleased with the performance of the automated sites, which are broadly in line with the investment case. A further 17 sites have been identified for automation in FY20, and we remain on track to deliver the plan and associated benefits over the next three years.

Turning to CHEP EMEA. CHEP EMEA once again delivered a strong result despite increasing revenue and cost headwinds, largely linked to macroeconomic uncertainty in the region. Revenue growth of 8% was driven by net new business wins in the European pallet and automotive businesses, and inflation-related price increases in the region. It should be noted that the region benefits from two points of growth from the automotive business.

The sales result was achieved despite a notable slowdown in like-for-like volumes, particularly in Europe. Underlying profit margins declined by 0.7 points as improved pricing and supply chain efficiencies were insufficient to offset direct cost increases, including transport inflation, Brexit-related pool inefficiency, and increased repair and handling costs associated with Brexit. Additional IPEP charges were taken in the year, recognising both a higher unit cost pallet cost in Europe, and also a higher incidence of cost in the IMETA region. ROCI remained strong at over 24% despite inflationary pressures, Brexit-related cost and capital inefficiencies, as well as increased investment to support volume and new market development.

As we look to FY20 we expect volume growth to be impacted by lower like-for-like volumes in Europe and a broader slowdown in the global automotive industry. Whilst we continue to prepare for Brexit, the exact impact of a hard Brexit outcome remains uncertain.

Looking at the EMEA sales growth in more detail, the chart on the slide outlines the composition of revenue growth over the last three years. In FY19, price mix contributed 2% to growth, up 1% from FY18 and following no contribution in FY17. This increase reflects the increase in contractual price indexation driven by inflationary pressures in the market over the last two years. Like-for-like volumes were flat in FY19, reflecting the economic slowdown in western Europe and the global automotive industry.

Net new business growth remains strong at 6%, reflecting growth in pallets with new and existing customers across the region, and a 2 percentage point contribution to EMEA growth on the automotive business following a large contract win in the prior year. As we look to FY20 we expect like-for-like volume growth to continue to be impacted by broader economic uncertainty, particularly in the European pallet and automotive businesses. The rate of net new business growth is expected to be lower, particularly in automotive, while pricing growth is expected to be in line with the inflationary cost environment.

Turning now to CHEP Asia Pacific, the Asia Pacific region delivered another strong result in FY19. Sales growth of 3% was driven by solid pricing and volume growth in the Australian pallets business. Underlying profit margins and ROCI both improved reflecting sales mix benefits, effective cost control, and a number of one-off items including a one-off infrastructure grant in Asia, and favourable asset recovery in Australia.

In terms of outlook and how you should think about it for FY20, we expect revenue and profit headwinds from the loss of a large RPC contract in Australia. We also expect a reduction in margin and return reflecting the cycling of benefits from one-off items in FY19, and also, we expect increased investments in FY20 to support new business growth across the region.

Turning to significant items. In discontinued operations, we recognised the $946 million post-tax gain on the sale of IFCO, the proceeds from which were received on 31 May 2019. In continuing operations, we recognised $42 million of IFCO-related costs, which included $8 million of restructuring cost, and $22 million of asset right-offs. It also reflects $12 million related to the early repayment of the US144A April 2020 bond, which was repaid with IFCO sale proceeds in July 2019. The interest expense benefit and the cash outflow associated with this early repayment will be recognised in FY20.

The balance of the expense of $21 million reflects the provision taken in Latin America in light of the updated assessment of risk of assets being irrecoverable, which I outlined earlier in the presentation.

So, moving now to slide 23 and our cash flow performance. Cash flow from operations declined $293 million year-on-year, and that was largely due to the mismatch of the timing of receipt of funds from the underperforming assets in FY18, and the related reinvestment into core business high-returning projects in FY19. So, the FY18 cash flow shown here includes the receipt of proceeds from the repayment of the HFG shareholder loan of $150 million, and the FY19 cash flow includes $73 million of reinvestment of these funds into the US automation and lumber projects. The investment into these programmes increased year-on-year by $56 million.

As highlighted in our FY18 results, the FY18 working capital benefits of $30 million reversed in FY19, and that accounts for an additional $60 million of the year-on-year decline. The current-year outflow also included $18 million of additional CapEx to fund Brexit-related retailer stocking levels in the UK, which drove higher cycle times and a requirement for more pallets. Free cash flow after dividend also includes the impact of only 11 months of IFCO cash flow contribution compared to the prior year, which had a full 12 months. This was partly offset by lower cash dividend payments due to a weaker Australian dollar.

FY20 will reflect the payment of the FY19 final dividend, which remains in line with the first half 19 interim dividend without any contribution from IFCO in FY20.

So, turning to slide 24, and if you take out the noise from the cash flow, given that we had a mish-mash of funds, to understand our true normalised free cash flow performance, it is important to adjust for the timing differences of exiting the low-returning businesses in FY18, and the progressing reinvestment of the capital into the high-returning US accelerated automation and lumber projects.

In FY18, collectively we received over $250 million in proceeds from the exit of the HFG joint venture and the sale of the US Recycled business. The repayment of the $150 million shareholder loan was included in cash flow from operations, while proceeds from the sale of the US Recycled business was not included in the cash flow from operations. As announced to the market at the 2018 investor day, these proceeds would be reinvested back into high-returning projects. In FY19, we invested $73 million of the proceeds invested in FY18 into these programmes.

The final normalisation adjustment is the $30 million working capital timing benefit received in the second half of FY18 that reversed in FY19, and this was highlighted to the market at the FY18 results presentation. Once you've made these adjustments, you'll see that on a normalised basis we've met our positive free cash flow objective for the last two years.

Looking at capital expenditure in more detail, and reading this in conjunction with appendix 9, total CapEx investment in FY19 was $1.1 billion, and that represents a constant currency increase of $91 million over prior year. The increase was driven by the increased investment in growth, including $30 million investment in the European automotive business, $18 million on Brexit-related pallet purchases, and a further increase of $8 million driven by lumber inflation as well as $37 million increase in non-pooling CapEx to support supply chain initiatives. The increased investment required was partly offset by $34 million of pooling capital efficiencies.

In FY20 we expect a reduction in pooling CapEx to sales driven by asset efficiency, while investment in US supply chain programmes are expected to remain at current levels, and broadly in line with the programme presented at the market in 2018.

Graham spoke earlier about how we'll use the IFCO sales proceeds, and what I'd like to do here is give you an overview of how these have been recognised in our balance sheet, and the implications for net debt and interest expense in FY20. We received net proceeds after transaction costs and net of cash of approximately $2.4 billion. We placed $2.1 billion on deposit in Australia, and we have already bought back $54 million of shares up to June 2019 - you see Graham referenced the Australian dollar amount in the earlier slide - and we used a further $500 million for the early repayment of the April 2020 US144A bond. Collectively, the use of IFCO proceeds significantly reduced net debt in FY19.

As we look to 20, we expect net debt to increase following the $0.3 billion capital return in October 2019, and as a result of the continuing share buybacks over FY20.

In terms of interest, the early repayment of the 144A bond will deliver interest savings in FY20, and we will receive interest income on funds in deposit in Australia. Net interest expense is expected to progressively increase in line with net debt increasing as we progress to capital management over the next 12 to 18 months.

We expect FY20 interest to be somewhere between $90 million and $100 million. In line with the outcome of our capital management structure review, we expect our financial profile after capital management actions to remain in line with our financial policies which support a conservative balance sheet and investment-grade credit rating.

Turning to slide 27, our balance sheet remains strong as we enter FY20 with additional financial flexibility following the IFCO sale. Net debt decreased to $98 million as at 30 June 2019, and our net debt to EBITDA decreased to 0.08 times, reflecting the receipt and subsequent use of IFCO sale proceeds as outlined on the previous slide. Net debt levels, and consequently leverage levels, will progressively increase over the next 12 to 18 months as the IFCO proceeds are used to fund the capital management initiatives. The increase will be consistent with our renewed commitment to maintaining

both a conservative balance sheet and our current investment-grade credit ratings of BBB+ from Standard and Poor's and BAA1 from Moody's.

So, turning to AASB16, there have been a couple of questions on this. So, as we look to FY20, we wanted to provide you with an overview of the expected financial implications of the new lease accounting standard which comes into effect in FY20. So, from a balance sheet perspective, we expect a reduction in net assets of approximately $100 million as we recognise lease liabilities of between $740 million to $760 million, and lease assets of between $640 million to $660 million, on our balance sheet. We expect a $25 million benefit to underlying profit as lease asset depreciation expenses of $115 million will replace current operating lease charges of $140 million. The impact on profit after tax will be a small shortfall, as the underlying profit benefit will be offset by $30 million of additional interest expenses associated with lease liabilities recognised on the balance sheet. We expect $110 million benefit on the reported cash flow as the removal of $140 million of operating lease payments is partly offset by $30 million of additional interest expense on lease liabilities. The remaining $110 million of lease payments will be treated as repayment of financing liabilities.

So, finally, to finish on the FY20 outlook, turning to slide 29. This includes the impact of AASB16. Taking into account the ongoing slowdown in global economies and automotive industry, constant currency sales revenue growth is expected to be at the lower end of our mid-single-digit growth objective. Underlying profit is expected to be in line with our slightly above sales revenue growth. Our expected tax rate is expected to be around 30%, while net interest expense is expected to be between $90 million to $100 million as interest savings of the early redemption of the 144A bond and lower net debt are expected to be offset by the impact of AASB16 and other funding impacts.

I'll now hand back to Graham. Thank you.

Graham Chipchase: Thank you Nessa, well done. What I'd like to do now is just go through a bit of a strategy update and talk a bit about the progress we've made, but also what we're expecting to do going forward.

Our strategy starts from a clear understanding of what we do and why we do it, and why our people come to work every day, our purpose statement. I think anyone who's covered the company for a while knows that we play a critical role in the global supply chain, and we're determined to make the supply chain safer, more efficient, and more sustainable. Our circular share and reuse model is absolutely critical to what we do.

Just one example - and we've been getting a lot of recognition for the model and how we are in terms of sustainability - but one example of several bits of external recognition is, Barons have just voted us the second most sustainable international company in the world for 2019. It's a great testament not only to the strength of what we do and the model, but also the way we actually go about it as a company and as people.

This, you've seen before. We set this out two years ago in terms of our strategic priorities, so there's nothing new there. But we've made significant progress against each of those priorities, and I'll talk about those in a minute. I think the important thing is, if we deliver on these strategic priorities it will then deliver on what's on the right-hand side of the slide, which is the financial objectives through the cycle. Again, we've talked about this before. Nothing new there.

This is something that we shared at the investor day in terms of the first three steps of this stairway, if you like, and we've been doing this for the last couple of years. So, if you look at the first three steps, the first one is fixing the fundamentals, then investing for excellence, and the third one is delivering results. There's always more to do, but we've made strong progress on all of these areas. So, simplifying the portfolio and our business structure we've done a lot on, sharing best practices across the whole group, across the whole world, in procurement, automation, and lumber, and adapting successfully to high and variable inflationary environment.

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So, we've done all that, and you can see in the delivered section in terms of pricing, increased network capacity, and improving quality, we've done a lot on that.

The last step is what we'd like to talk to in more detail in May at investor day, but it's really around shaping our future. As we become a more focused business, we think we can do more around making the customer experience more frictionless and less painful, transforming our value proposition, and simplifying the way we actually operate as a company. So, I'll talk a little bit about that now, but there will be more to come in May.

Before I do that, let's just go back to the external market dynamics. We've talked a lot around the changing face of retail and fast-moving consumer goods. I'm not going to do more of that. We've also talked about the macroeconomic uncertainty. I will reiterate that, just to make sure everyone's very clear around, our views are that in Europe we are facing, I think, significant uncertainty. It's not just Brexit, and I think it's harder to call about what the impact of the US-China trade war might be, but it's certainly something out there that we need to take into account.

I think the third one, though, is important to talk about, and I mentioned it a bit earlier from an internal perspective about sustainability, but there's an increasing importance of sustainability and the social licence to operate for all companies. We're all seeing consumer pressure for more sustainable products and a more sustainable supply chain, and from a regularity and investor perspective there is a need for more transparency, more understanding about what companies are doing to do good in the world.

I think one of the strengths of Brambles is that we've always been a good, sustainable company, but it's becoming increasingly relevant now. The benefit of that is not just from our own perspective and how it sits with the regulators or with investors, but with our customers, because we're now in a very strong position to support our customers deliver on their sustainability objectives, and a need for them to show that they are doing good in the world. I think when I talk a little bit more about this in a minute, it's giving us an opportunity to engage with customers and actually deliver more value, never mind for ourselves, but also for our customers.

One of the questions that we got on the sale of IFCO was, when you go ex-IFCO, does that mean all the growth opportunities are going to go away? Now, the short answer is no, but I'll try and expand that a little bit. We think we've got strong growth opportunities across a multiple of time horizons. We've split them up here into three buckets. So, in the shorter term, if you look at enhancing the core there's strong organic growth. You've seen the slides that Nessa put up in terms of breaking out the price element, but then still a continuing growth coming from converting users of whitewood pallets into the pooled solutions.

We're expanding new lanes, so doing a lot on first mile and last mile, and I'll come onto one of the products that helps us with last mile in a minute, as well as automotive, notwithstanding in the short term there's clearly some volatility there. We're also innovating in technology, and I'll talk about that in a minute as well.

In the medium term, we can talk about extending the core. So, that's really developing in emerging markets. We're already investing in Latin America, the Middle East, China to a lesser extent, and India to a lesser extent. But as we've talked about in the past, over the next 10 years, five to 10 years, we should be seeing some growth in those markets and our presence in them.

We're investing in new products and platforms, and I'll talk about that more in a minute, as well as additional services. So, we've started already doing things around transport collaboration, but there will be more to come in terms of goods visibility for customers, for example.

If you go to the longer term, I think we can look at creating future business models. So, reshaping the pooling model using the data and the information that we get from digital, looking at, maybe, other insight-based offerings from digital that we can then give to our customers and create value from, and then partnering. There's going to be a lot more

collaboration in the supply chain, which will also lead to value opportunities for us and our customers, and I'll talk about that more in a minute. But all of this is underpinned by the fundamentals around consumer growth, the need for more goods to be delivered to more consumers, the development of emerging markets. That underpins all of it. I think the only thing that I would say is that we do need to learn from the investments we are making in emerging markets when we go to new emerging markets, and that's something that Nessa's talked about already in terms of what we're doing in Latin America. We need to continue to learn from those experiences as we go forward, and we will.

So, if we look at four new sources of value, I'd like to talk about each of these in a bit more detail, and again we'll talk more about what this means when we get to May next year. So, the first one is customer collaboration. Supply chains of the future will depend on much more collaboration between, let's say, retailers, the FMCG producers, the 3PLs, and people like us. I just want to talk about Zero Waste World. So, this is a collaboration, an initiative we've launched - it's a major initiative - where we're partnering with our customers to tackle waste in the supply chain, and inefficiencies that cause the waste.

So, there are three areas that we're looking at. One's eliminating waste, so that's the first box. So, how can we help our customers eliminate one-way packaging? So, we migrate to reusable solutions. A good example is a large FMCG who's a customer of ours, we're using corrugate packages to transfer raw materials to one of their factories, and we talked to them about - clearly, the corrugate is used once and then thrown away and not recycled. So, we suggested that maybe we had some containers, which we actually have as part of our first mile solution product offering anyway, to substitute for the corrugate. Saved them a lot of money, also saved them a lot of carbon miles as well. So, there's incredible value to that. Helped us, because we obviously got a new product, new business with that customer.

Obviously, reducing food waste, a huge challenge for society and one where we feel we can contribute. If we look at the next one, eradicating empty transport miles, we've talked already about what we started doing a couple of years ago around collaborating with customers. So, if you just think about one small fact. In Europe, 30% of every truck - if you think about all the truck miles and all the truck journeys in Europe, 30% of them are empty. So, a huge waste of carbon and massively inefficient.

So, what we are doing, and we started off doing this more manually with spreadsheets, you start looking at - because we have the visibility across the supply chain, looking at customers who are going one way empty and another customer might be going in the same direction full. How can we link the two together so that we optimise the transport efficiency?

So, we started doing that manually. Took a long time, produced good results. We've now managed to get our BXB Digital business to get involved, so we're now using algorithms to do these same calculations and these same matches much more quickly and been able to expand the scope. So, it helps with reducing empty miles, it helps with reducing transport inflation, and of course reducing the environmental impact.

The final one is cutting out inefficiency in the supply chain. So, we can work with our customers about reducing bottlenecks in the supply chain and improving the forecasting and therefore reducing waste. We are doing all of this not as a thought leader, but more as a facilitator and collaborating. So, if you want to think about it another way, this is not about us saying we know everything, because we don't. It's about us saying, here is a problem that society has to solve. We think we can help in conjunction with other people, and from a more business case perspective it means that we are effectively taking a small percentage of a much, much larger pie, and of course we're becoming much more embedded in our customers' businesses, so this is not just a philanthropic thing. It's also a business thing.

But so far, we've launched it, we've been doing it for four, five months. Amazing response from big customers, amazing traction both with those customers and internally within Brambles, so I'm very confident this is going to be a really great initiative. You can see already the fiscal '19 savings both in terms of waste and carbon emissions. That's, I think, probably just the tip of the iceberg.

Brambles led the industry in developing pooling models, but what we want to do is, we want to lead the industry in shaping future pooling models, and that's going to require us to think about innovation both in products and services. So, I'd just like to give a few examples of what we're doing at the moment.

The first one is the new European quarter pallet, so that's part of our last mile solutions product offering. So, going into convenience stores, for example, or going into a retailer where they want to offer more SKUs to consumers and change things out more quickly than they can do on a full pallet. It also very much supports promotions, so if you look at the bullet points on the right there - I won't go through all of them but I think some key ones - 100% recyclable and certified as carbon neutral, pretty important, but also, it's digital-ready for proximity marketing. So, what does that mean? If you have an FMCG in conjunction with a retailer who wants to, as you walk past, say you've bought this before, or you've bought something similar, how about buying this, we will have the technology on the pallet to work with the promotional marketing that goes on that pallet to attract the consumer in. So, this is again something we've been trialling for a while, but this is the first larger-scale product that's ready to go to market.

The next one, we've looked at materials. So, we're continually looking to materials to deliver better performance. Historically, the challenge of plastic has been that it's high cost, and there's a lack of repairability. So, if you have something get damaged on a plastic pallet, in the past you've had to grind the whole thing down and start again.

It's quite hard to repair a piece of it. So what we're trying to do is to overcome that by a combination of using tracking technology, having a more modular, reparable design and of course pricing to a premium, which will help people return the pallets to us, because as they'll see, there's a value in it and clearly makes the maths work a bit from a financial perspective.

So what have we been doing so far? We talked a little bit about the trials we've done with Costco in the US with a full-size plastic pallet. Those have gone very well, so we're now in the point of working with Costco to do a much larger-scale trial. We're not quite ready to go full conversion, but we've made really good progress on that. We are continually working to try and get the weight down and the costs down. One of the things at the moment that is more work in progress rather than something we've got to show the market is a hybrid pallet. And so the benefit of a hybrid pallet is it will give you the same structural performance as an all-plastic pallet, but it will be made of a mixture of materials. So maybe some very high-grade wood, which will be much stronger than regular wood, but also plastic and maybe some metal as well.

So the benefit of that is you'll get the same structural performance as plastic, but it should be much lower cost. That's something we're working on. Nothing to show yet, but I would hope that within the next 12 months, we'll be able to talk a bit more about that. Finally, we look at collaborative transport solutions, so again, this is something we've been working on for some time, and this is really just to say that we've taken it a step further now by using digital technology to make these estimates and these decisions much quicker and much more efficiently.

So moving on to digital, again, it's a key part of where we need to go in the future. We've made significant progress in fiscal '19, so we now have BRIX, which I think we've talked about before. It stands for Brambles Information Exchange. It's effectively the black box that takes all of the data inputs from having - putting trackers on pallets and other information flows, uses algorithms to make predictions, and that's what it's doing. So we're using that for both internal and external use. We've had some large-scale tracking projects, so full-size pallets in the US. We've talked about that with both MPD lanes and with a large retailer.

We're looking at asset efficiency pilots in Europe and also doing some customer pilots in Australia and New Zealand. We've - so going back to the European half pallets, about promotional tracking, we've actually done a trial with Ferrero in Canada about showing them when promotional products come into the retailer. So again, this is absolutely key in terms of FMCG and marketing. You tend to target a one-week period when your product is promoted at the end of an aisle at a retailer. But to do that, you also plan all the TV and media promotional and marketing material to coincide, so

- and if you get that right, you can sell three or four times more of that product than you would do normally. So it's very valuable to do it, but it only works if the product is on the shelves during that one-week period when you're launching all the other marketing.

So it's really critical to check whether the product's actually coming into the retailer at the right time, and when you look at the data, it often isn't, so this gives a very - it's a very useful insight for the FMCG producer to go back to the retailer and talk about how to make the promotion more effective. In fiscal '20, what are we going to do? We're already looking at larger-scale assets, tracking programs, so for example, what we're doing with Costco will be an example, but we're looking at internal ones as well, so how can we get a much better bang for our buck and start really moving the dial on the asset efficiency objectives we've got?

We are looking, for example, to see how we can use better tracking on our Kegstar kegs, so again, it's a good project to use, because there aren't that many of them, but they're very, very high value, so you can see where it's worth having a much better tracking solution there. And we're also looking at how we can use AI and ML, so artificial intelligence and machine learning, to simplify things like customer declarations. I'll talk about that very briefly. Our model, our business model, based on cost to serve pricing is effectively based on averaging hundreds and hundreds of thousands of transactions, and we probably don't get it 100% right. It could be 80% right, for the sake of argument.

But to do that, we actually require ourselves and our customers to start declaring when assets have arrived at their factories, our premises and when they've left. So it's a huge manual/semi-manual process. We have estimated, and I won't talk about it now, how much that costs us and our customers. But we're still working off of averages. If we could use technology to effectively do away with the need to fill out all those bits of paper and yet still come up with let's say as an accurate an estimate, so let's say we still worked at the 80% accuracy limit, then the value we would create by eliminating all that cost but still coming up with as efficient a business is pretty big. So we need to work on how can we eliminate declarations using technology, and that's something we'll talk about more in May.

Similarly, we're looking at AI and ML. If you think about the sales operational planning process, it is a lot of people using Excel spreadsheets, using data flows and making estimates. That's all we're doing, or making predictions. And AI is misinterpreted by lots of people to mean lots of different things, but in essence, AI, all it does is it makes predictions faster than a human brain. That's what it does. So if we're in the business of trying to make predictions and we're using humans to do it, well, why not use AI and do it quicker and to the same level, if not better, accuracy? That will help us run our business better, because if you think about what our business is, it's about working out where we need to send pallets to a certain location to go to a customer, when we should try picking them up. That's what it is, and that's what AI can help us do much better, so we're again, trialling that, and we'll do more in fiscal '20 on that.

Finally, the fourth area I wanted to talk about is around operations. So we're using technology to enhance what we're doing in our service centres, and automation, we've spoken quite a lot about the program to automate pallet inspection and robotic repair, removal of certain broken elements. We're now accelerating that to look at how we can do robotic repairs using augmented reality, so we actually can take the operators straight to the right place to repair the pallet and make the whole process much more efficient, as well as taking some of the steps and doing them much more automatically.

If we look at plant management, so at the moment, we're just rolling out a program where we're trying to make the whole process of trucks coming in and out of our plants more automated, so using number plate recognition, the truck will come in, all the data, what's on the truck and where it needs to go to next is fed in automatically into our service centre system. They can therefore get in and out much quicker, much less admin to fill out, much more efficiently, and that's being rolled out. Then finally, we're looking again just in terms of a work in progress and experimenting, how does AI and ML - how can it be used to improve that whole operational planning process?

So just finally, yeah, we're in a strong - we've made strong progress against the five core strategic priorities. We're well positioned for sustainable growth, both in the short, medium and long term. We're setting an ambitious direction to capitalise on what's happened post IFCO, and now that we're much more streamlined, [focussed] global business. We're partnering with customers to remove waste and inefficiencies from the supply chain and trying to solve problems that the world needs solving, and we're also I think doing a great job around bringing the company together and leveraging our capabilities across the world, which is something we've not always done so well in the past. But we'll do a lot more in terms of sharing the details of what we plan to do in the future when we get to the investor day in May next year.

So with that, I think we're ready for Q&A. So if those of you - we'll take questions from the room first, and if you wouldn't mind just saying who you are and where you're from because of the recording, and then we'll move on to questions from outside.

Niraj Shah: (Morgan Stanley, Analyst) Good morning. It's Niraj Shah from Morgan Stanley. I just had a question on pricing in the US. Obviously, it contributed 3% to the top line in fiscal '19. Inflation seems to be moderating, but on the other hand, you said competition remains rational, and best I can tell, white wood pricing growth remains robust, so how should we think about the profile of pricing over the next couple of years as the remaining two-thirds, say, of the book rolls?

Graham Chipchase: So I think what we're saying, in the US, I think we think the profile should stay pretty much as it's been in fiscal '19, because we've still got some more contracts to convert. We're still applying - there's pressure to price increases. As, of course, we create more capacity in the market, and there are three things - it's the competitor behaviour, which seems to be rational still. It's the lack of capacity, which is beginning to open up a little bit, as well as our ability to go in and against the high inflation get price increases. Two of those are beginning to soften, but our intent is still to go out after price increases in the US. So I think we'd anticipate the profile being similar, at least for the next 12 months.

Scott Ryall: (Rimor Equity Research, Analyst) Hi. It's Scott Ryall from Rimor Equity Research. I was hoping that you could give a little bit more detail on the issues in Lat-Am, particularly if you've got specific countries that are underperforming, and are any below your hurdle rates for return on capital, please?

Graham Chipchase: You want to do that one?

Nessa O'Sullivan: So, look, the weighting of the business has always been more weighted towards Mexico. I won't break it down across the big business units, but Mexico is the biggest part of the region. In terms of overall returns, it's still a high-returning market. The challenge for us is that the normal structure should be we'd expect to get efficiencies and we weren't getting it. It was telling us that the way we were growing the business is going to land us in trouble, because we didn't have the right controls to manage the pool appropriately.

A change in management was needed to get somebody - they both come from the European business, who had good experience both in operations there but also supply chain, and specifically, asset management. As a group, we also put a lot of the group resources into working with the team across Latin America to develop a detailed plan. They've had access to the best thinking globally from all the markets to help them to develop the plan. We've had our group supply chain. [Lead] Carmelo has been working with them, as well as the team in financing and commercial.

And look, from a plan that was developed, we took it to the Board because it required additional in overhead to do it. It required quite a radical change in approach with retailers, and look, it's been implemented in the second half of FY19, and to already have such strong outcomes from it is pleasing, particularly because we see there's lots of growth opportunities still in Latin America. We were at a point where we were saying we actually have to get to a point where

we can have a trajectory that says, this is going to look like other markets when they get to maturity. So when you put more capital in to get the growth level that you're getting better returns. So I'd say we're going through a bit of a reset.

The pricing only came in in quarter four. We left it as amber on the chart until we'd collected the pricing from everybody, because it involves discussions around if you want to be in these lanes, you have to take a lot higher pricing in these areas. By the way, we're just recognising the cost to actually service this business is higher than we had previously recognised, and this is the commensurate pricing. So I'd say going into FY20, the momentum is good. It's early days, but seeing the CapEx to sales go down and have record re-collections, we think we're on the right path.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, so Mexico's the largest business. Is that also the largest problem in terms of where you've identified the - that you're growing - how am I going to put this the wrong way? But you've not got the controls around your growth profile. Is that the biggest problem area as well?

Nessa O'Sullivan: When you think about the region, Mexico's about half the region, so you should think proportionately, and when you think about stages of development, if it's half, that's the one that should be developing that's reaching that point to give you the indication that you haven't got the right systems in place. So the learnings and the changes are across the business, but more focussed on addressing immediate challenges with Mexico, given that's the biggest piece of the portfolio. So it's a regional management team that's gone in, and it's a regional approach.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, great. Thanks. Then the second question is on your plastic trials with Costco, so I assume, Graham, this is yours. Could you just give a sense of why Costco specifically is looking at plastic, and what are the attitudes of some of the suppliers into Costco, please?

Graham Chipchase: Yeah, so I think Costco are thinking about it because they're looking at it from a particularly if you think about their customers are also - it's much more of a [crux] is not the right word, but it's not someone walking in off the street. You have to become a member of Costco to go and shop at Costco, so they are very concerned around safety. They're looking at wood pallets versus plastic pallets on an aisle and what's both the hygienic experience as well as safety.

They are I think looking at it from also a supplier perspective and saying a lot of their products are bulk and heavy, and they have a feeling that plastic is stronger, and that's not necessarily the case. It depends obviously on the way you've built the plastic pallet, and I think that's one of the challenges, is getting the level of performance in high and low temperature, because plastic in high temperature bends a lot more than wood and in low temperature, shatters, which wood doesn't. So this is not a straightforward operational shift. They're looking at that as well.

For us, Costco was a good retailer to go and do a trail with, because in terms of cycle time, we knew that their attitude to assets ownership and looking after assets is significantly better than several of the other people we deal with in the US. So we knew that if we were going to put some high-value assets into their chain, we would get them back and they wouldn't go missing, so that's why we were happy to start with Costco. But as it turned out, it seemed to them as being a very strategic move, so it will happen with them, and the reason we're not being - it's not saying it's now going to happen is we're not the only player in town. So we have to go in there and prove that we are giving them an asset that delivers on their performance objectives, and there will be a point when we have to look at the cost compared to other people who might want to play in that space. Their suppliers at the moment, because that's where we're moving now with the smaller-scale trial. So with the smaller-scale trial, it was with one or two suppliers.

Now they want to move to a larger-scale trial, where it's multiple regions within the US and multiple types of suppliers. It's not just in one category segment. It's moving across several category segments, both to test out their model but also for us to see are the economics going to work with more than just one type of industry segment. So that's why it's now going to a larger-scale trial than going straight from small trial to rollout, because I think Costco recognised it's not straightforward either, and that's where we are with it.

Scott Ryall: (Rimor Equity Research, Analyst) Thank you.

Col Butler: (Credit Suisse, Analyst) Hi. It's Col Butler from Credit Suisse. I've got a couple of questions. Firstly, on slide 17, where you've given the margin improvement targets for the US business, but I don't think you report the US margin, I'm just wondering, just to make some sense of that, whether you can give us some sense of the margin progression that you've seen in the US in '19 versus '18?

Nessa O'Sullivan: Sure. So if you go to the previous slide, if you flip back to the previous slide, which is on CHEP Americas, which is slide 14, it shows that essentially the point of margin decline from the Americas region was delivered was due to the US business. Then you'll see that we expect the outlook, the progression, to be one point over the next three years, and that's because the major driver of the margin improvement was always going to be from the automation projects, and the outcomes from that are largely weighted towards '21 and '22.

Col Butler: (Credit Suisse, Analyst) Okay, and then just further on the price increases that you're getting in the US, we've had a number of conversations with some of your larger customers, and there seems to be a very concerted effort there for them to try and reduce their usage of pallets to offset price increases. I'm just wondering what you're seeing there and whether you see that as a risk, because I imagine that there's quite a range of price increases that you're putting through to get to the 9% average.

Graham Chipchase: So I don't think we've seen that. When you look at the growth profile, the like-for-like growth is still there in the US, so I don't think - it's not gone in the wrong direction, and we're still - obviously, we're still able to convert, because the net new business wins are still reasonable. We have been I think doing the right thing in terms of price increases, because we are still capacity constrained and will be for some time. Where we had businesses which in our view were sub-acceptable returns, we've gone for quite large price increases.

What's interesting is when we were expecting to lose some of that business, we have not lost as much as we expected, so therefore, people are still having to use the pallets I think is the short answer. Now, that is not to say for one moment we are taking the view that maybe was taken in the past, an arrogant view of people have got no choice. We do not - that's not where we're coming from at all. I think we recognise that we still have to improve on quality in the US and we still have to improve on our operational effectiveness, making sure the customers get the pallets when they need them, where they need them, but we have not - I have not heard from any customers that they're saying we're going to use less pallets because your pricing is too high.

Don't get me wrong. They don't accept the price increases willingly and happily, but that's just life, and there have not been price increases in the US market for quite some time. So when we started doing it last year, that was the first time for many years.

Col Butler: (Credit Suisse, Analyst) Just further, in the last year or so, I think you've made progress with Wal-Mart, your biggest retail partner, on reducing flow of pallets out of the country. I just wondered if you could comment on whether you've made any further progress in trying to facilitate a more timely return of pallets from them?

Graham Chipchase: So the short answer is we've made some progress. One of the things we did with BXB Digital in last 12 months is one of the trials we did is putting some pallets, digitised pallets, into the Wal-Mart flow, because again, we wanted to prove out or not the view that all of the problem was due to the continual reuse of pallets from distribution centre to stores and back again within the Wal-Mart change. And we found that a large percentage of it is that, but there is also a percentage which is not that at all. The two things we found were that in some instances, the store managers were - because the last thing they want from their own operational efficiency is to have empty pallets on the back dock of the stores.

They were selling the pallets to recyclers, which they're not technically allowed to do, and the other thing we found that was some of the FMCG producers were in some instances doing direct shipments of products to the store rather than through the DC, which is fine. But they had been instructing either tacitly or not the drivers, if they were empty on the way back to pick up a load of pallets and take them back to the FMCG producer. Now, in the US model, that's not good news for us, because we only get to issue a fee or to charge people when we issue a new pallet, and if we don't even know these pallets are being brought back into the FMCG, we can't charge for it.

So finding those two things out is really important. We've now been able to go back to Wal-Mart, and Wal-Mart, the issue is really it's not an integrated organisation, so the logistics people aren't necessarily the same people who run the stores. So we're beginning to have a dialogue now saying, can we now talk to the store organisation about what they're doing with recyclers, and we're now able to talk to some of our customers and say, actually, technically, you're not allowed to do this. So we are making progress. We're also getting progress from Wal-Mart in terms of understanding the need to sweep their stores more regularly and get the pallets back to us.

So yes, we're not seeing it in the numbers yet, because it's a huge organisation, but from a direction of travel, I think we're going in the right place.

Col Butler: (Credit Suisse, Analyst) Okay, and just another one, in Canada, you're highlighting that you've got extra costs because of the dual pallet pool and also because of the higher damage rate to the block pallets. I just want to draw that across to how we think about what happens if plastic becomes a bigger part of the pool. So obviously, plastic pallets are more expensive, so you need more pricing to cover that, but then you also end up with a dual pool. Are you confident that you're going to get the pricing to match the level of returns you've got elsewhere in the business?

Graham Chipchase: So this is not just a pricing issue. It's also what's your assumption around damage rate and loss, essentially, so it's a number of different factors which then can lead you to making sure you've got the right returns, and that's why this next scale, larger-scale pilot's quite important, because that will be when we can start testing our pricing assumptions with the suppliers into the Costco supply chain.

Looking at it on a piece of paper and what we think we can do in terms of recognising there has got to be a premium for plastic pallets, it looks like it's still okay. Will it be necessarily as a high a return as wooden pallets? Possibly not, but the alternative is to do nothing and let somebody else do it, which I'm not sure is a good answer, or Costco find a completely different solution, which is not a good answer. So as long as it's above cost of capital, then I think that would be the right thing for our business and our shareholders. Clearly, we want to optimise that, and that's where I think the trials are important around pricing but also checking our assumptions on loss and damage, because you've only done it with effectively one supplier, one lane into Costco. We need to check out the assumptions. It's a key thing.

Then I think the other, as I think we've said before, let's assume that gets scale and it's not - maybe not just Costco. It might go elsewhere in the US business. We've then got to manage different - maybe different types of service centres, different repair processes, different wash processes and manage the transition. Now, if we've got the growth in wooden pallets and also understanding the lifecycle, I think it's manageable unless there's a big switch. I don't think there will be a big switch in the short period of time, so I think it's manageable, but it's something we have got to think about for sure.

Are there any more questions on the floor? If there's not, we'll go to questions from the phone.

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're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Matt Ryan with UBS. Please go ahead.

Matt Ryan: (UBS, Analyst) Hi, Graham. Just sticking with plastic, can you talk a little bit about the tracking technology that might be applied to these plastic pallets?

Graham Chipchase: Yeah, so I think what's most likely is it's going to be an RFID type of solution, and to that end, Costco are always looking at the investment they would have to make within their own network in terms of installing scanners, because it's all very well, us sticking an RFID tag on a pallet, but you can only read it when it comes into contact with a scanner, and that requires therefore scanners within our service centres but also within the DCs and stores at Costco. They are prepared to make that investment, because they can see the benefits of doing it.

So I think that's where we'll end up, but we haven't finalised it yet, but that would be my gut feeling, is it will be an RFID type of technology.

Matt Ryan: (UBS, Analyst) I guess looking at the trials that you've conducted so far, if we were to assume that some sort of passive RFID was applied to those, are you expecting that loss rates under this broader larger pilot will be pretty similar to what you got in the trial?

Graham Chipchase: Well, that would be - if it wasn't, I think we would have a different view on pricing, as I said, because the things are linked. The Costco and the people who are helping them on this project have been incredibly proactive and supportive in trying to close off all the areas of potential leakage. So we've sat down not only from the results of the small trial, but looking at the system as a whole and identifying where we think there are areas of potential leakage. They've gone in and said, okay, but if we do this, this and this, that should close it down.

So that this is definitely a joint effort, because they understand that for us to make this work for us, they have got to help us manage the loss rates, and the damage rates as well, so they've been very, very constructive and collaborative in this process.

Matt Ryan: (UBS, Analyst) Okay, thank you, and then just flipping to price in the Americas, I think the effective price increase in the US was about 4% over the year, which implies about 3% in the second half. Can you just talk through what happened with the surcharges? It doesn't look like you got much of a benefit from surcharges in the second half.

Nessa O'Sullivan: If you go back to actually look at the recovery levels and the margin impact year on year on the margin, first half, second half, you can see we did get good recoveries. But obviously, as you start to see a lower rate of inflation, you get lower recovery. But year on year, the net impact, despite an increase in inflation, we had a full-year impact this year of 10 million across the group, which is down from 18 million in the prior year, so you can see we were getting a benefit, which is partly driven. That net number is reflecting the surcharges. We have certainly increased over the year progressively the surcharge clauses in contracts in the US.

Matt Ryan: (UBS, Analyst) Sure, I'm just looking at the first half numbers, where I think you said you had effective price growth of 5%, of which 3% was price, 2% was surcharges. I think you said in the second half, or sorry, for the full year, you've also had price increase of 3%, but your effective price went up 4%, that 1 June, all of the growth in the effective price in the second half was actually just price change rather than surcharges?

Nessa O'Sullivan: Well, it depends on also your mix of business that you have in the first half versus the second half. So in the second half, we also had quite a bit of beverage volume, which is again a lower price that gets included in your total pricing of what we would have reflected. So it depends on the contracts you're renewing, so the bigger contracts in general, having more market power would have a lower average price increase compared to the - and say the smaller contracts. So there is a big mix impact. I would say in the second half also, we had a bit of a lower mix of agricultural flows, and that was because as we went, we won a very big contract that required a lot of pallets. That was in the last quarter of the year, but we hadn't quite exited some other contracts that were on the lower RPI, but we didn't pick up some of the agricultural flows that we would normally pick up seasonally because we had our pallets tied up. I wouldn't read too much into the first half, second half, that we haven't continued to get pricing.

Matt Ryan: (UBS, Analyst) Okay, thanks, and just a last question on transport inflation. I think the guidance is ongoing inflation in all markets, which includes the US. Can you just talk about how you're taking an account of improving rates that we're seeing in the spot and the contract indices that we can see publicly?

Nessa O'Sullivan: Yeah, definitely. So you'd be a brave person to call where the inflation's going to end for the year based on what we've seen to date, but yeah, we have seen a moderation, and if we continue to see those low rates continue during the year, we will get some benefits from them. So absolutely, we'll be tracking that very closely. Part of our portfolio is on spot. We generally even for fixed contracts tend to be pretty sophisticated on how we buy, so yeah, we're keenly focussed on that. But the view currently going into this is that we'd expect to still see some inflation. Let's see where we go on the first half.

Matt Ryan: (UBS, Analyst) Okay. That's helpful. Thanks, Nessa.

Operator: Your next question comes from Owen Birrell with Goldman Sachs. Please go ahead.

Owen Birrell: (Goldman Sachs, Analyst) Hi, guys. Just a few questions from me. I'll just start with the US pallet margins. Great slide, just again showing where you think you can recover margin in the US market off those first half '18 levels. But given you don't split out what the US margins are in the first place, I'm just wondering, how are we supposed to measure that?

Nessa O'Sullivan: Well, everything that we put into our ASX slides is QA'd, so we have, I can tell you, a mound of people who double-check all the facts and all the analysis, and our auditors review the comments that we make, as well. But we do have a very detailed review, and we keep an audit trail of all of this to confirm that what we're communicating to you is exactly in line with how we did the calculation in the first place. So there is a very rigorous internal process, but we're not going to start reporting US as a separate business. We're reporting in the regions as we have done and will continue to do, but I guess we've done above and beyond the way we break up the segments, because we are trying to guide people and help you to get there. We've added additional notes, as well, in the accounts, even for the changes in IFCO. But we do have a rigorous process, and you should have comfort around that.

Graham Chipchase: Okay. Your reference back to that investor day comment, it does hang together, because I think what we said was if you take the margins at the end of the first half of '18, we said, well, we think they're going to go up two-ish percentage points, maybe two to three. We've since gone down one, which is therefore still consistent with us saying we think we're going to go up about two to three between now and the end of '22. So I think it's consistent. We're obviously talking about is it two, is it three, is it somewhere in between? But I think it still hangs together, given we've gone down one since the - in fiscal '19.

Nessa O'Sullivan: If you have a look at the bottom of the slide, we've also footnoted, so that you know you're comparing like with like to clarify those points.

Owen Birrell: (Goldman Sachs, Analyst) Let me just drill this another way. North America as a group first half '18, 16.2 is the margin then. Are you implying that you can add 200 to 300 basis points on that to get you back up to 19%? Given the issues in Canada and Lat-Am, can you get to that level?

Nessa O'Sullivan: Talking about the commitment here is to do the US pallets, and that's why we break it out to be US pallets. So we've talked about Latin America, and we're taking new pricing that's just come in in quarter four. I would expect that the level of the IPEB charge should be able to come down over time in Latin America, because we'll be going into lower-risk flows, which means you have to extend lower charge relating to those flows. But we have to see both of those impacts flow in, and it's going to be a three-year program.

In relation to Canada, we recognise that when we go to block pallets, there will be a higher damage rates that will be ongoing. You're getting a softer wood with four-way forklift entry, which means that they get more damaged, because usually the corners that get damaged, the stringer is a lot more robust. So we just want to signal that we've come from a position that our Canada business was particularly a very high-return business. The competitors also have block pallets, so we don't have a lot of room to say we're going to charge more, because the block pallets get higher damage, so we're limited in terms of commercially what we can do. So we're saying, expect there will be some moderation in margins in Canada from an ongoing basis relatively to where we've been historically.

Latin America, from where we are now, we'd expect some improvement, and the US, we expect improvement by these quantum's.

Owen Birrell: (Goldman Sachs, Analyst) Okay, all right. Just another question just looking at plant costs. They rose through the period as well. You called out increased inefficiencies, but you also note that the US automation program is at 50% now with 20 out of 50 sites. Just wondering, did automation actually have any positive impacts during the period, or is it still going through commissioning and you're facing those difficulties?

Nessa O'Sullivan: No, not really. It's not really, and that's why we've always said it's going to be weighted to '21 and '22, because as you go through, you take plants, you take capacity. So we started off where we didn't have enough capacity, so when you get to a point where you're capacity constrained and then you're taking capacity out, that means you end up with a lot of rehandling, reworking. You have plants that aren't working efficiently, because you're stretching them to use every last piece of capacity. You're running overtime in them. It's not an efficient way to run a network.

And then you overlay that we've had a lot of inflation on transport, so you get doubly hit, because the transport costs ping you for the additional moves. So you start with not having enough capacity, and then you take capacity out, so as you progressively - so you think, we've done 20. We're doing another 17 this year, so that inefficiency doesn't really start to fall out until you get to the '21, '22, so that's how you should think about it.

Owen Birrell: (Goldman Sachs, Analyst) Okay, can I just ask on the capacity constraints, Graham, you called it out a couple of times during the presentation? Is that affecting the service quality standards for the customers, and in terms of being able to deliver the customers the pallets when and where they want?

Graham Chipchase: It's not affecting the quality, because we're making sure that we keep on investing in the quality of the pool, even though we're obviously struggling with margins in the US at the moment. So we've not relented on the investment in quality. I think it does make it harder for us to deliver the right pallets at the right time to the customers, but we're effectively eating that up, as we've just talked about, in terms of network inefficiencies. So we're not - and if you look at the customer surveys we do and the net promoter scores, they've actually been improving in the US, so that implies that we're doing it better than we were before, even if it's not necessarily up to the levels that we or the customers would want it to be.

Nessa O'Sullivan: Yeah, and one of the other factors we're seeing, too, is in the US a lot with these big box e-commerce guys is - the access to labour, labour churn, is an added cost that we've got that's an increased inefficiency or increased cost we're also bearing.

Owen Birrell: (Goldman Sachs, Analyst) I'm just wondering, are you seeing any increased rates of churn as a result to competitors?

Nessa O'Sullivan: Sorry, can you say that again?

Owen Birrell: (Goldman Sachs, Analyst) Are you seeing any increased rate in churn of contracts to your competitors as a result of that capacity constraint?

Nessa O'Sullivan: No. No, because we're managing it by effectively putting in more costs, so we're eating extra overhead. We're eating the extra transport cost, and ideally in fact, as we've gone through a portfolio with a number of customers, where we won a big customer and we were losing a couple of other customers, and actually the ramp down of those customers was slower than ideally we would have liked for pallet efficiency, and that's why in the second half we bought more pallets in the US than would be ideal for that network, so no, we're not seeing that.

Owen Birrell: (Goldman Sachs, Analyst) Okay, that's great. Thanks, guys.

Operator: Your next question comes from Jakob Cakarnis with Citi. Please go ahead.

Jakob Cakarnis: (Citi, Analyst) Hi, Nessa. Just to pick up on the efficiency point, I think you mentioned there that you're purchasing more pallets to service customers in the US. I noted that there was a change to asset efficiency metrics for the managers. Can you just talk to the runway of how we get improved turns from here, just noting the delays that you're seeing on the automation?

Nessa O'Sullivan: So look, first of all, I think you can look at cycle times, but there's always a question about what impacts cycle time, so we've actually said the fairest measure is using CapEx to sales, because in a higher cost inflation, your pallets are going to cost you more, but you should be charging more for them, so a better mix, a better ratio to judge people by. We've seen some improvement if you ex the Brexit adjustment, the pooling CapEx to sales, is about 20%. We would say that as we - the progress we've made has been smaller than we would have liked on the CapEx to sales.

You'll see on the CapEx slide, we split it out so you can see how much efficiency we're actually getting, so we analysed the root cause of what drives all these components, including how much is due to Brexit. How much is due to CapEx - lumber inflation, for instance. So we're using that, so that measure change of using it as a percentage to sales, we feel is a more appropriate fit.

We would - we've also split out automotive, so you can see the level of investment that relates to that, and you get a sense of the improvement. We see this is as an area where we would say, over the last few years, we see this as an opportunity, and we have made some improvement, but we haven't really got to the full place that we can get to. We see that there are further improvements that we're already seeing in, say, Latin America, from the collection processes and other things. We're trying to use pricing levers in other markets where we're trying to better align prices with cycle time and use of assets to incentivise people to have the pallets for less time, give them back quicker. So we still see that opportunity and we've more work to do as well in terms of using digitisation and some of the bigger trials hopefully this year should help us to do that.

Jakob Cakarnis: (Citi, Analyst) Okay, just pivoting now to slide 17, where I think everyone's been focussing on this US pallets margin outlook. At the investor day, there was a view on this 200 to 300 basis point margin improvement that also included some downside from cost inflation. I'm just wondering whether or not the views remain consistent given the pullback in cost inflation that you guys are pointing out happened in the second half of '19.

Nessa O'Sullivan: Yeah, so the comment that I made earlier, I'd stick by that comment to say, look, our current view is that inflation will continue to be a challenge for us, and we've always said that when inflation is continuing to rise, there'll always be a little - there will be a lag to catch up. But if inflation moderates, and we continue to see - if we do see deflation, then yes, you should expect us to see - to get some benefits. There will be some timing benefits that you get, the same way we've had some adverse timing impacts as the inflation has increased.

But our current view is, it's going to continue to increase. If that changes and the actual outcome is that it's not increasing, then yes, we may be looking at a different profile over time.

Jakob Cakarnis: (Citi, Analyst) Okay, so if on slide 17 there, were you saying that the phasing of the improvements will be about 100 basis points from '20 to '22. Is that solely from the self-help initiatives and ex inflation, or does that include a view on inflation at the moment?

Nessa O'Sullivan: It includes, so if you look at where we're saying we think we get a point of improvement for each year, for FY20, '21 and '20, it's a combination of all these items together. If inflation comes down, we don't get the full win, because the surcharge comes off as well, so you've just got to be conscious that when we were going up, we had the raw costs coming in where we didn't have the surcharge. We've been catching up with surcharges. As you come down, you'll have a bit of a timing benefit from when it comes off and your surcharge is still on, but net-net, over time, you will get the surcharge comes off, as well as inflation coming down. So it's a net number that you're looking at probably on the benefit side, as opposed to on the way up, where we have a raw increase in cost.

The other inflation that we talked about as we think as you look going forward, we are seeing property inflation. We're seeing warehousing costs, particularly service centre costs go up, and again, big box retailers have been a big impact on that, and if you look to the UK and other parts, you're seeing the Brexit-related warehousing costs go up, and we have seen that impact now starting to come through too on labour. So I agree with you, we're seeing lumber moderate, which is CapEx. We're seeing, starting to see, some early signs of transport, but we still would have some property and eventually labour challenges.

Operator: Your next question communications from Cameron McDonald with Evans and Partners. Please go ahead.

Cameron McDonald: (Evans and Partners, Analyst) Good afternoon. Just some clarification questions, if I can. Just so, Graham, you mentioned that you thought the CHEP USA margins had declined by 1% since the first half '18, you said. Did I hear that correctly?

Graham Chipchase: In '19. In fiscal '19, they've gone down 1% - one point.

Nessa O'Sullivan: One point in terms of the Americas region impact. So if you go to - it's set out on slide 14, so you'll see that the annual impact from the USA on the region is just over a point, with Canada and Latin America making up the balance. And you'll see the relative improvement in the USA half one to half two, and part of it's due to improved recovery of costs, which is through your surcharging, and part of it is also due to more favourable comps. If you remember, in the first half of '18, we didn't have the high inflation. Therefore, you'd expect as the US cycle [met] with higher inflation, it would have a bigger impact on the year-on-year margins.

Cameron McDonald: (Evans and Partners, Analyst) Yeah, so just to be clear, though, you are highlighting that the benchmark is now based pre the accounting changes at 16.2% and the Americas for the - so the US contribution to that 16.2% is the benchmark?

Nessa O'Sullivan: We're going back to the absolute margins of the first half '18, and we'll continue to measure it on a like-for-like basis adjusting, so that the accounting changes do not impact it, so it will be the real margin outcomes that we're measuring.

Cameron McDonald: (Evans and Partners, Analyst) Yeah, okay. Great, thank you. And then, can you give us an update on where you are with the Coles PC contract in Australia, please?

Graham Chipchase: Not really, because we've actually signed some confidentiality terms with that negotiation, so there's nothing I can say on that.

Cameron McDonald: (Evans and Partners, Analyst) Is there any timing related to that decision?

Graham Chipchase: There is nothing I can say on that.

Cameron McDonald: (Evans and Partners, Analyst) Then, with the plastic trials in with Costco, when's the - is there a decision point about the go, no go and what the potential capital requirements could be?

Graham Chipchase: Well, there will be, but that will be down to Costco, and I think they will have to look at the results of the trial from an operational perspective. If it's in line with what they are hoping for, then I think they will look for various suppliers to put out an RFP and we'll go through a normal process. And then our decision will be, do we think we want to take on all the business? Will we be allowed to take on all the business? If I were Costco, and I suspect this is where they're coming from, they'll have more than one supplier, because that just makes business sense. Then it'll be a question about to what extent can we say we think our product is better suited to certain lanes or certain regions, so it's very, very hard to call on what the CapEx will be until we actually get into a more detailed negotiation post this large trial. So that's not going to be - we won't be in that sort of - that phase for at least the next nine months, 12 months, I would have thought.

Cameron McDonald: (Evans and Partners, Analyst) So are you the only supplier in the larger trial, or are there other suppliers that they are bringing into that trial that…

Graham Chipchase: Costco today have three pallet suppliers, and I'm sure all three will be involved in the trial. It's not something we're made aware of, but I would be extremely surprised if all three were not involved in the larger trial.

Cameron McDonald: (Evans and Partners, Analyst) And then how are you protecting your IP under that trial then, if you've got other suppliers involved?

Graham Chipchase: Well, our pallets have got IP, and that's IP. That's our pallets, it's our IP, and similarly, the other suppliers will probably have their own pallets and their own IP. And therefore, one of the challenges, but there might still be good commercial reasons for doing it, is that you would be running, if you were Costco, a pool or the poolers would be running the pool, but you would have different pallets within the pool. But that's not that different to where they are today in terms of having to sort different - at the moment, if you look at the Costco pallets that are used in their business, they've got a mixture of wood and plastic, through different suppliers, so it's the same sort of operational challenge that they've got today.

Cameron McDonald: (Evans and Partners, Analyst) Okay, thank you.

Operator: Your next question comes from Ky Van Tang with Colonial First State. Please go ahead.

Ky Van Tang: (Colonial First State, Analyst) Hi, good afternoon. All my questions relate to Brexit. So can you expand in greater detail what these Brexit-related inefficiencies are, and are they just impacting your UK business, or are you also seeing them impact your mainland European business?

Graham Chipchase: So the inefficiencies we're seeing at the moment are relating to customers wanting to stockpile ahead of what they think's going to be a hard Brexit. So we saw that leading up to March, which is when the first deadline was going to be, and that's - we ended up putting more CapEx in, because clearly customers want to stockpile product. The pallets, they're not moving through the system. We're having to inject more CapEx.

Now, that in theory is a temporary issue, not a long-term issue, because when they stop stockpiling, then the pallets are released back into the system, which is what's happened since March. But now we have the next deadline coming up, which could be - someone's smiling in the audience. It could be the end of October. It could be any other time, I guess, as well, where again, we expect customers to want to stockpile. The slightly different element now is that if it is the end

of October, that's also the time when customers need to be preparing for the Christmas surge, so it's probably going to be an exacerbated issue in terms of having to put more CapEx into the business.

That's one element. The other element though, is around the heat treatment of pallets, which if the UK leaves the EU, at the moment, pallets going backwards and forwards within the EU are treated as being okay from a bug perspective. If the UK comes out of the EU, all of a sudden, our bugs are clearly very dangerous bugs to the EU, and we have to prove that we've heat treated everything. So that means that we have to invest in heat treatment in our UK plants, which we are doing, so there's a bit of CapEx there as well.

I think just to put it in perspective, though, only 10% of our European business flows are UK cross channel, so yeah, it's a major irritation, but it's not a dramatic thing. The bigger issue as far as - and I don't think it's necessarily - there's no evidence to support it's affecting our non-UK business today. You could argue that the slowdown we're seeing in France in particular is probably impacted by some Brexit uncertainty around the ports and the flow of goods. You could. I don't think there's hard evidence to support that. The bigger issues are going to be, I think, the slowdown of GDP in Europe, and that is driven as much by the fact that Germany's economy is an export economy, and therefore, it's affected by China and the US.

France's economy is also slowing down. Italy's is slowing down. So I think these are far bigger issues in the context of Europe. I think the bigger issue from the UK perspective is the political change that may or may not happen as a result of Brexit being affected with or without a deal, and people far more intelligent and better paid than I are still not able to answer that question, so I just have no idea what the outcome of that is. But for me, that's actually the bigger issue, but I don't think we can plan for that. We have to do what we can control, and what we are doing is effectively talking to our customers. We've spent a lot of time talking to over 100 customers about understanding what their plans are around Brexit, so we can either support them or at least understand what the requirements might be, thinking about the heat treatment but also lobbying the government around making sure that if we have a hard exit, that there's going to be some grace period around having to effect some of these changes, and they've been very supportive of that.

So those are the sort of things we can do. The other items I think are becoming less of an issue. I think we were worried at one point about flow of labour over across the border. I think that might be okay, so I think we're doing everything we can. It's an incredibly difficult thing to forecast, but we're taking the view that there's going to be a hard exit, and that's what we're planning for, because that's obviously the most impactful scenario to plan for.

Nessa O'Sullivan: So I think all of [unclear] are definitely the bigger picture and the bigger potential impact, but in this year, we also had a lot more pallet relocations, so there were - we also relocated pallets back to mainland Europe for exports back to the UK on UK pallets. We also, because there was a big demand for that UK-type pallet, we also accelerated repairs on any of those pallets because there was particular high demand for that UK-type pallet. So there was some impact as well on this year when we talk about Brexit operating inefficiencies, but obviously Graham's covered the bigger strategic issues and potentially bigger financial impacts.

Ky Van Tang: (Colonial First State, Analyst) Great, and you're saying you're prepared for it. Have you done any scenarios as to what a no-deal Brexit would mean for you in terms of costs, or is that too hard to get into at this point?

Graham Chipchase: Well, we have planned for - so we're planning for no-deal hard Brexit, and in reality, what is the impact's going to be around potential tariffs on pallets coming into the UK, which are manufactured - obviously, we purchase from outside the UK. That's probably one of the bigger ones, and then the solution is not easy, but there is a solution, which is we go and buy more pallets from inside the UK, and it's not like the UK doesn't have any wood. It's just that we've been buying them from outside the UK for a while.

So that's something we can look at. So in terms of is it going to be a big impact, we don't think so. There are some things we're going to have to do differently. What happened, I think the impact is more likely to be on our customers if

there's lots of tariffs on goods. I think something like 30% of the UK's food is brought in from outside of the UK. That is going to have a bigger knock on for consumers and for our customers. We don't see it as a huge financial issue for us. It's something we just have to think around.

Ky Van Tang: (Colonial First State, Analyst) Then, finally, are there any break clauses in your existing contracts with customers that are directly related to Brexit, such that if there is a no-deal Brexit, they have the opportunity to renegotiate the terms of those clauses or break it off completely?

Graham Chipchase: Short answer is no. I guess you'd have a debate around whether it was force majeure, and I think most commentators think that this is not force majeure, so that's not something we're particularly worrying about at the moment.

Ky Van Tang: (Colonial First State, Analyst) Great. Thank you. That's all from me.

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

Graham Chipchase: Great. Well, I think we've gone on quite a long time, so thanks for the questions, and I'm sure we'll be seeing some of you in the next few days, but thank you very much.

Nessa O'Sullivan: Thanks.

End of Transcript