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Start of Transcript

James Hall: Good morning everyone, it's James Hall speaking here from the Brambles Investor Relations Team. Sorry that we've had a slight delay in getting started this morning. Thanks for joining us for the presentation of our 2015 financial year results. We will be opening the lines for Q&A in a short while. Please be ready with your questions. But first we'll be - we'll go to some prepared remarks from our CEO Tom Gorman and our CFO Zlatko Todorcevski. I'll just remind you that all forward looking statements are subject to the disclaimer on slide 50 of the deck that we lodged with the ASX this morning.

Tom Gorman: Well good morning; this is Tom Gorman speaking and thank you very much for joining us today. I would like to start today's presentation by recognising that the Brambles team delivered a solid result for the 2015 financial year. This was delivered despite underlying operating conditions which remain challenging; the result was in line with our guidance. At constant currency sales revenue was up 8% and underlying profit was up 10%. This positive leverage to the bottom line reflected the strong delivery of efficiencies.

Now in our largest segment which is the pallets business, the result reflected the very strong European performance contrasted by some ongoing cost pressures in the US. Our RPC segment delivered a result that reflected strong sales and profit growth. In containers the key feature of the year was the acquisition of Ferguson and I am pleased to say that it delivered a solid contribution despite the challenging conditions we face in the oil and gas sector. Our final dividend for the year is AUD0.14 per share which is the same amount as the interim dividend and is up AUD0.05 on the 2014 final dividend. We are reactivating our dividend reinvestment plan for this dividend on a non-underwritten basis and with a modest discount of 1.5%. Reactivating the DRP will provide additional flexibility in support of our strong balance sheet position as we continue to fund our growth strategy in particular with regard to small bolt-on acquisitions.

In addition to our FY15 result I would also like to talk about our outlook and our expectations for future investment in the business. Notwithstanding the challenges presented by continued uncertain and lacklustre economic conditions and the generally low global growth rates, we expect our growth to remain strong. In fact our outlook reflects an increased level of investment opportunity that we believe is available to Brambles given the unique position we enjoy in the supply chains we serve. We expect sales revenue and underlying profit growth in FY16 of between 6% and 8% at constant currency. Now that translates to an underlying profit range of between US$1 billion to US$1.02 billion and that is at 30 June 2015 foreign exchange rates.

Return on capital invested is likely to be down slightly in FY16 and this is reflecting the investments we expect to undertake during the period as well as higher goodwill as a result of recent acquisitions. We

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remain committed to delivering our FY19 objective which we set back in December of 2013 and this was an objective to achieve a return on capital invested of 20% exclusive of the impact of acquisitions made since that date. We currently expect to invest US$1.5 billion of growth capital expenditure from FY16 to FY19. This spending is over and above our replacement capital expenditure over the next few years which we expect to remain broadly stable.

I will talk about the scope of these opportunities in some depth later on but our investment plans are weighted to FY16 and to a lesser extent FY17. These largely relate to supporting availability to CHEP customers in the US as the inventory cycle continues to pick up in that market, supporting major retail partners in the RPC sector in response to strong demand, as well as appetite for differentiated merchandising offerings - and the continued rolling out of a broader range of fractional and display pallet offerings worldwide as well as higher growth in emerging markets. In addition we continue to invest in our brand and in innovation projects. Now these investments reflect our confidence in the future and the unique position we hold in our customers' supply chains.

Now I will now briefly cover our safety performance before moving on to looking at the financial results in a bit more detail. The Brambles injury frequency rate continues to decline as we drive better performance in our recently acquired businesses. Notwithstanding this strong performance however, I am extremely saddened to report that we did suffer a fatality during the year. This fatality was the result of a road traffic accident involving one of our vehicles in the US recycled pallet business, it occurred in December. The accident resulted in the death of our driver and a person in another vehicle. The entire Brambles team were saddened by this tragic accident and we continue to stay focused on delivering a zero harm work environment.

Turning now to the key financial highlights of the FY15 result. You can see clearly in the comparison of the actual and constant currency growth columns the impact of foreign exchange on our reported results. It is very important to remember, however, that out exposure is purely a result of translating local currency into US dollars for reporting purposes. We have negligible transactional exposure in our operating businesses and for that reason I will focus on constant currency performance throughout the course of my comments. Sales revenue was up 8% to almost US$5.5 billion reflecting a two percentage point contribution from acquisitions, solid new business and lane expansion and modest contribution from organic volume increases and pricing.

Operating profit was also up 8% to US$939 million. The slightly lower rate of growth in profit after tax which was up 7% to US$586 million reflected the non-deductibility of some significant items. Underlying profit which is operating profit excluding significant items was up 10% to US$986 million. This profit leverage reflected efficiency gains for the Group which was very pleasing in the context of the increased cost we have been experiencing in the US part of our pallet operations. Return on capital invested was down half a point to 15.7% as a result of the good will impact of acquisitions, most notably Ferguson. Excluding acquisition impacts, return on capital invested was up 30 basis points or 0.3 percentage points to 16.6%. Brambles value added or BVA as we refer to it - was broadly flat at US$272 million. Cash flow from operations declined US$99 million to US$729 million reflecting increased CapEx in the period to fund our growth.

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Now moving on to look at the delivery scorecard for the year, I also believe we did well. Our sales revenue growth was at the low end of the 8% to 9% guidance range we provided in November. While 6% growth excluding acquisitions was just below our target range of 7% to 9%. We have delivered against all our other key targets for the Global Supply Chain efficiencies program, underlying profit growth, return on capital invested excluding acquisition impacts and free cash flow after dividends.

Now in addition to the delivery scorecard I would like to touch on the key actions undertaken in the second half in the context of the focus areas we set out at the half year result which we presented in February. The first point was cost on which we said we would seek to mitigate transport inflation and deploy pallet durability actions in the CHEP USA business to offset higher plant costs. Both those actions are underway and we experienced a moderated level of plant and transportation cost growth in the second half compared to the first half. As discussed at the first half result, our durability improvements included the roll-out of a new of a new clinch nail process for repairing pallets and the addition of a new nail plate to all new pallet purchases. In FY16 we anticipate that 25% of the pool will have been repaired with the clinch nail process and that 60% of new pallets will have nail plates. The financial implications of this are broadly neutral in FY16 and are forecast to drive a benefit from FY17 onwards.

On the second point which is brand, the global refresh of the CHEP brand launched officially in North America in June. Using the theme - this is the supply change - this campaign is about repositioning CHEP as a provider of a differentiated portfolio of solutions and has been extremely well received by our customers. We'll show investors more of this at the investment market briefing in Southern California in September. The CHEP brand refresh will roll-out on a phased basis in other regions over the course of FY16 and FY17.

Now the third point was on innovation. We are increasingly undertaking projects alongside customers to develop applications and technology solutions specific to their supply chain needs - which we can also discuss further at the briefing next month. In addition we continue to explore the current structure and the correct business model in the arena of the internet of things as we explore opportunities to leverage both our asset base as well as our data in this fast evolving space.

Now the fourth point was our growth strategy. Total FY15 growth CapEx was about US$350 million as we continued to invest in opportunities throughout the Brambles Group. We made two small acquisitions in the RPC business, Rentapack in Chile which gives us a bigger footprint in our very strong South American business and IFCO Japan which gives us control at a very attractive multiple of a business of which we previously owned one third. In Africa we also made a small acquisition it the period, a timber plantation business which further strengthens our lumber security in the region. We continue gradually to expand our footprint on the African continent with initiatives in countries such as Zambia and Morocco.

I will now cover each of our segmental results in a bit more detail; I'll start with the pallet segment. Here new business growth, pricing and mix gains and like for like volume growth contributed in roughly equal proportion to total sales revenue growth of 5% at constant currency. In emerging markets, growth of 12% was robust if a little bit below the recent trend of more than 15%. This was primarily a result of a somewhat lower rate of growth for our Latin American business. A major highlight of the year in pallets was the outstanding result in Europe. Where mix improvement, specific pricing actions and a strong level of

efficiencies all contributed to a great year. This performance was more than enough to offset the negative impact of the ongoing cost pressures in the Americas from higher plant and transport costs and at constant currency enabled underlying profit to grow 6% and return on capital invested to increase by 20 basis points.

The RPC result was greatly improved on the prior year with contact FX sales revenue growth of 12%. This was driven by a particularly strong rate of growth in Europe as we continue to drive conversions from cardboard to RPCs with both existing and new retail partners. The rate of growth we are experiencing for IFCO in Europe is well above what we assumed when we acquired this business. The growth is a real credit to the strength of our relationship with retailers in the region as show by our recent extension of our contract with REWE which is our biggest customer. Underlying profit growth in RPCs was 15% and ROCI increased by 70 basis points. Excluding goodwill impacts from the IFCO acquisition our RPCs portfolio delivered returns on tangible capital invested of 18.7% in the year. This margin growth reflected scale related network and transportation efficiencies in Europe and the non-recurrence of various one off items in the prior period which were more than enough to offset higher depreciation costs as the pool grew.

Now the containers segment results vary by supply chain and this reflects the breadth of operations in this segment. Total sales revenue was up 31% at constant currency although this largely reflected the impact of Ferguson, Transpac and Airworld acquisitions. Excluding these acquisitions, sales revenue growth was 4% as we continue to seek to offset a challenging growth environment in some of our operations. In automotive - although second half growth rates were much improved in the European business and the relatively small North American and Indian businesses continue to growth strongly - our Australian operations remain exposed to the decline of car manufacturing in this country.

The performance of the intermediate bulk containers business continued to be strong with growth rates there reflecting market share gains in all regions. Now in the oil and gas supply chain, Ferguson's pro forma constant currency sales revenue growth for FY15 was 7% which we believe is a solid result amid the challenging conditions in this sector. Our pre-existing catalyst and chemical containers business which has a strong market position experienced lower levels of the customer shutdown and turnaround activity that drives its volumes. Aerospace growth has begun to increase in line with the onboarding of some of our recent customer wins. Underlying profit growth of 10% and ROCI growth of 60 basis points, excluding acquisitions, reflect the continued indirect costs disciplines within the containers business. It's now my pleasure to hand over to Zlatko who will walk you through the financials in a bit more detail.

Zlatko Todorcevski: Thanks very much Tom and good morning everyone. I'll start with a more detailed look at the key drivers of our sales revenue growth. I remind you that all figures as in US dollars and comparisons in constant currency unless otherwise stated. Net new business wins in the pallet segment were US$64 million, approximately one third of the total pallet sales revenue growth. It's important to remember that his growth, as well as the RPC's growth of US$105 million comes from the consumer staples sector which while non-volatile, also has a very low rate of underlying growth in the current global economic environment. In this context the growth we're delivering is quite robust.

The container segment growth reflected a relatively mixed set of conditions in the four supply chains we serve as well as acquisitions in the period. This chart highlights the translational impact of the strong US

dollar during the period which amounted to US$363 million. We have negligible transactional exposures to FX moves as our local business costs are mostly in local currency. An extended breakdown of our FX mix and prevailing rates applicable during the period is included in the appendices to this presentation.

Now let's look at underlying profit in more detail. The contribution of volume, price and mix of US$134 million reflects the strong operating leverage we delivered on sales growth during the period. US$24 million of our profit growth came from newly acquired businesses with Ferguson being the largest contributor. There was also a US$34 million benefit from the delivery of the Global Supply Chain program. We've broken out the direct cost impact of the Pallets Americas businesses from direct cost increases in other businesses. The US$74 million increases in Pallets Americas has been challenging and reflected the impact of improved asset recoveries on repair and transportation costs as well as a spike in freight carrier rates during the year. Although there as some modest reduction in the rate of cost increase in both these areas in the second half we expect the pressure to continue into FY16. I'll talk more about this on the next couple of slides. The remaining increase in direct costs of US$10 million was mostly driven by higher depreciation as we increase the size of the pool to support growth in RPCs in particular. The increase on other costs was largely a result of US$10 million of costs allocated to Recall in the prior corresponding period. Versions of this slide for each of our segments are included in the appendices.

This next slide looks at transports cost in the pallets business in more detail. As you can see from the chart, although there has been a strong spike in transport costs in the Americas, shown as the dark blue line, our Europe, Middle East and Africa business - the bright blue line at the top - experienced a strong reduction in the year. The thick black line is a weighted average for the whole pallet segment which, as you can see, has in fact moved very little in five years. This reflects how the diversity and breadth of our business tends to mitigate against the impact of trends in any one region. For example, the decrease in transport costs in Europe, Middle East and Africa in FY15 was largely a result of efficiencies being delivered in a low inflation environment. Conversely the increase in the US was a result of system wide inflation and freight carrier costs of about 8% which we've only been able to offset slightly to date through pricing initiatives. We would expect both the positive trend in Europe and the negative trend in the US to be less pronounced in FY16 albeit the pressures in the US will remain. Transport costs in Asia Pacific - the light blue line at the bottom of the chart - are inherently lower because of the predominance of the transfer hire model in this region.

Plant costs follow a not dissimilar trend to transport costs. The increase in the Americas has been offset by improvements in Europe, Middle East and Africa. However, the key difference is that while trends for transport costs are largely driven by extraneous factors, plant costs increases in the Americas - shown as the dark blue line at the top - are primarily the result of deliberate actions we've taken in the way we manage our pools. In the Americas increased recoveries and reduced losses from improved asset management have led to a higher average pool age. This has driven a higher cost of repairs because older pallets tend to pick up more damage so the cost of repairing them to customer specifications is higher. At the same time we remain committed to meeting customer quality requirements with our pallet repairs which has supported the elimination of the commitment to provide some customers with new pallets. While these trends have had a negative short term impact on margins, they reflect that we are running the business for the long term. Additionally the investments we have begun to make in pallet durability by changing both repair practices

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and pallet design are underway. Coupled with some replenishment of the pool to support supply chain restocking, these changes should have a mitigating effect on plant costs in future years. I'll discuss this in more detail when I cover the CapEx outlook in a few slides.

The declining plant costs in Europe, Middle East and Africa shown at the bottom of the chart again reflect the delivery of cost efficiencies in a low inflation environment. The systemically lower plant cost ratio in Europe, Middle East and Africa reflects the use of managed exchange in Europe as well as the diversity of the pool in that market given that fractional and display pallets require less repair than do full size wooden pallets.

I'll briefly touch on the indirect cost trend for the Group in the context of the targets we've set under the One Better business improvement program. Those targets for FY19 compared with FY14 are to reduce total cost by US$100 million and to reduce the overheads to sales ratio by at least two percentage points. As you can see from the chart we're making strong progress in reducing the sales to overheads ratio. It's important when looking at this chart to note the impact of acquisitions as the purchase of IFCO in 2011 decreased the Group's average overheads to sales ratio substantially. In FY15 we delivered US$11 million of reductions from quick wins, we're on track to achieve a cumulative US$30 million of the US$100 million target by the end of FY16.

Much of the early benefit will come from the Better Purchasing initiative where we will leverage our procurement scale globally. The other elements of One Better are divided into two groups. Firstly, Better for the Customer which are initiatives focused on simplifying processes and making it easier for our customers to do business with us. Secondly, Better for the Business focused on driving alignment and simplification and key internal functions like finance, HR and IT. We're making good progress in both areas and I'll talk more about these programs at the investor briefing next month.

This next slide covers a reconciliation from underlying profit to statutory reported profit. Underlying profits which excludes significant items was up 10% in the year at constant currency compared with 8% growth in statutory operating profit. Significant items rose to US$47 million from US$31 million in the prior period due to the ramp up of the One Better program, acquisition related costs and the cost of our brand refresh in the pallets business. At the operating level the difference between actual and constant currency growth, as we've explained, is purely a result of the translational impact of the stronger US dollar. In finance costs the impact of higher net debt as a result of funding the Ferguson acquisition was offset by the impact of the weakening Euro relative to the US dollar. Our net debt by currency is set out in the appendices where you can see that the Euro accounts for about 55% of net debt compared with about 24% of sales revenue. Our effective tax rate was 29%, broadly in line with the prior year but impacted by the non-deductibility of some significant items.

Now turning to cash flow. Cash flow from operations at US$729 million was US$99 million lower than the prior year. This was a result of increased capital expenditure to support customer growth which I'll cover in more depth on the next slide. The positive effect in the year of foreign exchange moves on our funding costs is apparent when we look at free cash flow. Although FX adversely impacted our EBITDA outcome it also resulted in reduced financing costs because of the weaker Euro and lower dividends paid because of the weaker Australian dollar. There was also some positive cash flow impact in the period due to timing of tax

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payments and recoveries. As a result, total free cash flow after dividends improved US$8 million to US$45 million in the year.

I'll now look at capital expenditure in more detail. The chart on this slide shows replacement CapEx in grey with growth CapEx for each of our business segments over the past five years and our forecast for FY16 of US$1.1 billion of which US$500 million is for growth. The first point is that replacement CapEx has remained relatively stable. This is despite continued growth in the size of the pool and is due to improvements in asset management. The second relates to RPCs where we say a strong increase in growth CapEx in FY12 post the IFCO acquisition. CapEx is now increasing again in response to strong growth in Europe and customer demand for differentiated merchandising such as a new black coloured pool in support of REWE in Germany and wood look crates for other retailers. The third point is that growth CapEx has also increased the support acquisitions in containers. The final point is that we're beginning to see increase in growth CapEx again in pallets. This part reflects gradual supply chain restocking in the US which is driving increased inventories in the retail supply chain. I'll talk about this in more detail on the next slide.

This next chart shows seasonally adjusted, US Census Bureau data on the ratio of retail trade inventories to retails sales, excluding the automotive sector. It highlights that we're experiencing a gradual pick up in inventories, that is restocking is beginning to gather pace in the US supply chain. This would appear to be a positive sign for the US economy longer term although I must stress we're extremely cautious on any leading indicators given the ongoing uncertainty in the economy. Increase in retailer inventories also means slightly longer cycle times as CHEP pallets in the field spend more time in customer warehouses and take a little longer to return to us. In the short term at least that means more new pallets are needed to meet growth demand. The need for more investment is amplified by recent plant stock trends shown as the blue line on the chart. We have driven stocks down to their lowest level for many years and now need to replenish plant stocks in anticipation of growing demand. While we anticipate increased CapEx and pool growth in response to these trends please remember that as a result of our improvements and repair quality for the customer we now have no commitment to provide new pallets to any individual customer. That means we can turn CapEx off relatively easily if the restocking trend and associated customer demand growth is not sustained.

I'll now close with a short discussion of the balance sheet. Next debt of almost US$2.7 billion at June 2015 was up US$327 million on the prior year primarily reflecting the debt funding of the Ferguson acquisition. Despite the acquisition we're now back at the net debt to EBITDA of 1.75 times as at 30 June 2015. Our decision to reactivate the dividend reinvestment plan on a non-underwritten basis reflects our commitment to staying with our leverage target at a time of increased growth investment. For the sake of consistency it is our expectation that we will now leave the DRP open for the foreseeable future. I'll now hand you back to Tom.

Tom Gorman: Well thanks very much Zlatko, I'll now spend just a few minutes reviewing our longer term outlook and investment plans before we open up for questions. To begin let me reaffirm that the investment proposition for Brambles is unchanged. At the heart of our proposition is a sustainable, competitive advantage created by our unique scale, expertise and commitment to our customers' supply chain. This drives the other two tenants of our investment proposition. The strong rates of return we generate from our

networks of assets and the unique access we have to growth opportunities both by providing new services and solutions in the supply chains we already serve as well as through deploying our expertise in new areas. As we set out in December 2013 after the Recall demerger, our expectation is that we can generate high, single digit sales revenue growth each year and that we can achieve return on capital invested of 20% by FY19. These targets at constant currency and prior to the impact of any acquisitions since December 2013 remain unchanged.

So what has changed and why do we now believe that we will be investing more capital in the business in the short term? On this slide we have set out on the left hand side the assumptions we published in December of 2013 for macroeconomic, industry and consumer factors as well as our assumption at that time of the rate of growth in average capital invested that we would need to make. While many of our expectations have proven quite accurate, there are additional factors that are driving our conclusion that growth in capital invested needs to be slightly higher than the 5%.

These factors are set out on the right hand side of the slide and they include the impact of improved US pallet pool management on operating costs in that business and the CapEx requirements in that market that Zlatko has just outlined. It also includes the rate of growth and diversification in the IFCO RPC pool. It also includes the pervasive impact on organic and pricing growth of low global growth and inflation. The intensification of competitor activity which we believe is at least partially a result of low funding costs and finally the unique position we are in to invest at this time in differentiating our offering by providing more solutions, a broader range of platforms and better service.

Now over the next four years these trends translate to an estimated total growth capital expenditure of about US$1.5 billion. The vast majority of which is going into our pallet and RPC's operation serving the consumer goods and fresh food sectors. The chart on the left side breaks down the total growth component of CapEx in FY15 then shows our expectations going out to 2019. As Zlatko has already covered, growth capital expenditure was up in FY15 to about US$350 million and it is expected to peak in FY16 at about US$500 million. We then see the growth CapEx coming down again a little in FY17 and further in FY18 and beyond. These plans are of course subject to change as we continue to assess the opportunities in front of us and can of course be reduced if we do not believe that a particular opportunity supports customer and shareholder value creation in the long term.

Our FY16 plans are focused on supporting the growth of the US pallet pool - as Zlatko has discussed - differentiating our RPC offerings in support of major retail and merchandising programs including within which is our expanded relationship with REWE in Germany through the roll-out of a black coloured pool and increased retailer demand for wood look crates in both the US and in Europe. Expanding our quarter and half size pallet pools in Europe and increased half size penetration in North America - as well as growing in emerging markets. In particular as we expand our footprints in new countries in Africa and Latin American and continue to increase penetration in Eastern Europe. All of this investment is weighted heavily towards businesses that already generate very strong incremental returns on capital.

Now there will of course also be some OpEx in support of these initiatives. I would like to emphasise that this is growth investment which we define as the capital expenditure being deployed over and above that

required to maintain our existing pools at their current levels by replacing lost of scrapped assets. I also emphasise that these programs will be supported by a continued focus on driving cost efficiencies in all aspects of our business, disciplined capital allocation and leveraging acquired goodwill throughout the portfolio. Now to shine the light a little more on capital allocation, it is useful to review our current portfolio of business units in the context of the quantity and quality drivers of value. The horizontal axis represents our business units' recent rate of growth in average capital invested. The vertical axis represents the business units' return on capital invested. The bubble size represents the average capital invested in each business unit at the end of FY15. The darker blue bubbles are the CHEP business units, the green bubbles are IFCO business units and the lighter blue bubbles are container business units. The chart is not drawn to exact scale.

What is apparent on this slide is that we have many, very strong businesses that generate strong rates of return above our notional pre-tax cost of capital at 12%. Some of these such as IFCO South America, the IBC's business and CHEP emerging market businesses to the right also offer very high growth opportunities. Others such as the bulk of the CHEP operations and the automotive operations have less strong growth profiles but given their return profiles, generate a strong return on any capital we can invest. There are a number of businesses in which acquired goodwill dilutes returns on capital. The three businesses in which this impact is most significant are the IFCO business in Europe, our oil and gas business and the IBC business. In all three cases incremental investment on these businesses generates a return well in excess of 12%, highlighting the attractiveness of investing in these businesses in the future.

Now this leaves three businesses that require a particular focus in terms of disciplined capital allocation. They include our IFCO North American business, Lean Logistics and CHEP Aerospace. In the case of IFCO North America we are currently planning to invest proactively as we seek to drive penetration higher, such that scale will drive asset utilisation and operating efficiencies will improve in the long term. If we did not feel confident that this increased investment would contribute towards our achievement of that efficiency tipping point then of course we would not sanction the investment. In the case of Lean Logistics and CHEP Aerospace, both made progress in FY15 in delivering higher returns although both still have some distance to travel before they are in fact mature businesses. We will talk in more depth about our current view of our portfolio at the investor briefing next month.

Now to close I will summarise our guidance and outlook. Over the medium term we remain committed to our FY19 target of a 20% return on capital invested and again this is prior to acquisition impacts. Second we expect compound annual growth rate in average capital invested to be slightly higher than the previously anticipated rate of 5% a year. We anticipate total growth CapEx between now and FY19 to be in the region of US$1.5 billion. For this year - that is FY16 - we expect constant currency growth in both sales revenue and underlying profit to be between 6% and 8%. This translates to an underlying profit guidance range of US$1 billion to US$1.02 billion and that is at 30 June 2015 foreign exchange rates. Return on capital invested will be down slightly for the year and this reflects the short term impact of increased investment and of the FY15 acquisitions. We are expecting interest costs in the region of US$120 million to US$125 million and we expect the effective tax rate on underlying profit to remain about the same as this year at 29%. Thank you very much for your time this morning, we will now open for questions.

James Hall: Thank you Tom, thanks everyone, it's James speaking again here. The first question on the line I'll go to in a moment. If I can just remind everyone please to sort of ask just one question at a time so we can get through everybody. The first person on the line is Cameron McDonald from Deutsche Bank so Cameron, your line should be open.

Cameron McDonald: (Deutsche Bank, Analyst) Thanks James, morning Tom and Zlatko. Just a question - I'm restricting it to one - just with regards to the return on capital target and then the guidance around CapEx and the lower return that you're going to generate in FY16. So if I leave the return flat into next year - albeit that you've said it's going down - that's going to require you to have a return expansion of about 150 basis points for the subsequent three years each year through to FY19. Even on a stable capital base - albeit that you're saying that investment's going to go up - yes, that's about US$90 million a year in additional EBIT. I mean when was the last time that you were actually able to generate that sort of increase? How are you going to actually do that? I mean given that you've only got US$100 million worth of cost out, Yes, so I'm just concerned as to where - how much of this is actually reliant on top line growth coming through that is outside of your control?

Tom Gorman: Well Cam, first of all thanks for the question. I think - look it goes to the core of the medium term outlook and investment proposition for the company. So first of all I'll make a couple of comments. So we wouldn't have reiterated the 20% target if we didn't think we had a road map to get there. I think the road map again is really based on a couple of things through the period. High single digit sales growth. So that still assumes that through the period we can grow in that 7% to 9% range. It does also assume that we'll get positive profit leverage against that growth rate and it does assume a slightly higher than a 5% ACI growth in the period. Now also it doesn't have every business unit getting to 20% to be clear. So if you look at some of our businesses today they're well north of 20%. There will be a number of businesses that move above 20% during the period and there are other businesses that will actually show more than a doubling of their return on capital although still not make it to the 20%. So on the weighted average basis we believe that we have a plan to get there.

I think in terms of our ability to deliver that there are a number of issues that we'll continue to press on. So clearly top line growth is a component of that but we will continue to take cost out of the business. So we have a very large focus on driving overheads down. You can see that we're making great progress on that and we see our way very clear to delivering that. We continue to have a number of initiatives underway to improve our EBIT margins or our underlying profit margins as we refer to them. So we believe that - look, this is not a lay-up by any stretch of the imagination, there's work to be done. But we believe that we're positioned very well to take advantage of the opportunities that are in front of us.

I also think you have to look at where we are today. If you look at where we were five years ago to where we are today our business is almost twice as large. If you look at the opportunities that we have in front of us to grow our business, our pooling business over the last five years has grown a top line - and that does include acquisitions for sure - but the top line growth has been close to 11% or 12% CAGR over that period. So the business to which we then can invest is significantly larger. So we think that we're in a position to deliver the 20% objective. If you look at that small chart that we showed Cam which is really just sort of indicative of

where we are and it's really meant to be more of an example than specific sizes of circles and the like. We'll cover a lot more of this at the investor briefing in September. But we look at our business as a portfolio business and there are businesses in there that have to improve their performance and we'll be keenly focused on driving improvement in margin structure for those businesses. There are other businesses that are incredibly strong and we'll be looking for new ways to deploy capital into those higher return businesses. So we still believe that there is a plan there for us, we're committed to that plan. No question there's a lot of work ahead of us but we think we can deliver.

Cameron McDonald: (Deutsche Bank, Analyst) Thanks.

James Hall: Thanks Cameron and of course if you do want to ask more questions please - you can do so later on. Simon Mitchell from UBS is the next in the queue so please go ahead Simon.

Simon Mitchell: (UBS, Analyst) Good morning, my question relates to the return on capital in the Pallets Americas and Pallets EMEA businesses. There's obviously a very large divergence between the two returns. In fact EMEA now at 27% which kind of takes us back to the days when the US business was generating a similar return and then it faced a significant reinvestment catch up program after that period. How do you view those two returns and their divergence going forward? How do you think about that fitting into the 20% target? I guess in particular I'm interested in your thoughts on the 27% in EMEA whether that's sustainable.

Tom Gorman: Yes, so I think that's a great question as well and thanks for your participation Simon. So first of all I think there - the returns are differences in the business - the way we show them. I'll just remind you that the return on the Americas business has in it the CHEP recycled business as well which has a bit of goodwill associated with it. So in essence that has an impact to begin with. It has a lower margin - very high return on capital ex the goodwill because there's low capital in it but there is a slug of goodwill in that business. Look, I think when you step back and look at the EMEA business it's a very, very strong business for us. As I think we've said pretty clearly, FY15 was a great performance year for us and we do not see that position improving substantially from where it is. So we think we're at a great set of returns, great set of return on capital and we really envision holding that position through the medium term.

The real issue for us is to get the Americas business up to a return very close to where we are in the EMEA business today. So the improvement that we're going to get through the cycle is to make both businesses look very similar in terms of return profile. Now your caution is one that we take very seriously. So you go back to the history of how we achieved the returns in the US and fundamentally we were not delivering the customer requirements. That is not the case of our returns in Europe. We've been able to deliver efficiencies in Europe so we've made our business better. We have not taken very much pricing at all in Europe which we've been very open about. So the improvement in our business is not coming through pricing to the customer. The same will hold true in the Americas. We believe that we can continue to drive efficiencies in that business. The further integration of the recycled and the pool business holds a lot of promise for us. If we get that return in the Americas close to the return that we see in Europe that goes a long way to delivering this 20% return.

Last but not least I would just mention that part of the Americas is our Latin America business and there last year we didn't achieve the growth expectations that we had. These are high return businesses, we see the growth returning in FY16 and beyond and we'll continue to deploy capital. So it's more of a - a bit of a more of a complicated story in the Americas because you have a number of moving components. But we're confident that we can get that return close to where EMEA is today and it's not dependent on stretching the EMEA returns beyond where they are.

Simon Mitchell: (UBS, Analyst) Okay, thank you.

James Hall: Thanks Simon. Scott Ryall of CLSA is next in the queue, Scott please go ahead mate.

Scott Ryall: (CLSA, Analyst) Thank you. Tom, I was wondering - you mentioned on the way through that one of the drivers of increased CapEx is the increased scope of investment opportunity and you stressed on slide 26 talking about the CapEx outlook that these were for growth investment areas. Could you just talk to - I guess there's some - there was a few examples you provided there but in terms of roll-out of new pallet platforms and differentiation of RPC offerings - just clarify a little bit more on how they are expanding your addressable market. As opposed to changing the equipment that you're supplying for current customers?

Tom Gorman: I think that there's a couple of things happening. So if you look on the year-on-year growth in our growth capital. So sort of that US$350 million that we spent in '15 and taking that up to about US$500 million in '16. I think there's a couple of things that are going to drive that. First of all the continued expansion of fractional pallets in the US, so we have been talking about that now for the last year or so. We're beginning to get traction on that program in the US. Look it's not yet a noticeable contributor; it's nowhere near sort of the 10% to 12% of volume that we get in Europe. But we still hold great hope in that business and will continue to invest in fractional pallets. Emerging market growth is going to accelerate in the pallet business in the year, that's also a fairly large component of that US$150 million or so increase year-on-year in the pallet sector. Also there is now - we are wining contracts in the US and we do foresee higher growth in the US market. So on the pallet side, emerging market growth, fractional or display pallet growth and there is growth in the US.

When it comes to the RPC business, I think we've been clear about this, it really represents two opportunities. There's still more investment to be made in support of the REWE contract. We won that contract last year, that's a big shot in the arm for our team in Europe, plus the emergence of alternate merchandising strategies with some of our customers around this wood look crate. We've also put aside some investment to build growth there. On the container side really the actual incremental - the increment for growth year-on-year is really not that large. Most of the investment - that US$150 million if you will from '15 to '16 is really going to find its way into the pallets and RPC business. But we do have a bit of incremental growth across all of the containers business with probably more of a focus on IBC growth than anything else.

Scott Ryall: (CLSA, Analyst) Okay, thank you.

James Hall: Thanks Scott. The next question in the queue is from Matt Spence at Merrill Lynch.

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Matt Spence: (Merrill Lynch, Analyst) Hi guys. Pallets Americas if I can. You've broken out for us previously the increase in the direct costs. So the US$74 million that we saw in FY15 - how much of that's down to increased repair costs in the second half? How much mitigation do you get on the US$74 million FY16 from the transport surcharge?

Zlatko Todorcevski: Matt, it's Zlatko. I won't give you direct guidance on the FY16 mitigation from the transportation surcharge we put in place. But look it helps to offset but it doesn't go a great way to offsetting what we're seeing in transport inflation. If you recall in the first half we said that excess transportation inflation was about a US$10 million impact. In the second half we did moderate that with some efficiencies. So it was only about US$5 million but we do expect those higher levels of transportation inflation to continue. So that was about a US$15 million hit in the year out of the US$74 million. Of the balance, the vast majority continues to be driven by the impact of the higher asset collection that we've been seeing in the last couple of years. Therefore higher plant costs around repairing those pallets and relocating those pallets to where they need to be. That's by far the biggest component of the US$74 million; it's about US$40 million. Then we have a little bit of depreciation from the higher investment that Tom spoke about. So that's about US$15 million. The rest is in Latin America.

Matt Spence: (Merrill Lynch, Analyst) That's what worries me is the higher repair costs though. Because you called out higher repair costs in the second half '14 and first half '15 and said that it had re-based and we've got a step up I guess of about US$20 million again in second half '15.

Tom Gorman: Yes, look I think that I would add one thing to what Zlatko said. We have also taken a number of actions on durability and they're not going to be visible in '16. The durability impacts - the two major things that we're doing is we introduced a clinch nail process in the repair process and on new pallets we're now introducing nail plates in the US. In '16 we'll only probably have - about 60% of our new pallets will have the nail plates and we yet don't have all of our facilities ready to put clinch nails on. But we see a real benefit in that in FY17 and beyond. So in '16 it's basically net neutral, so the added costs - the processing or OpEx cost that's going in is going to be offset by what we believe is a lower damage rate in the US business. But in the long term when we get our pool all new having nail plates and clinch nails throughout every service centre, we believe that that will pay significant dividends going forward in the efficiency of the business.

Look we've also assumed that our transport cost in '16 really doesn't moderate very much from what we've seen in the US. We actually in our forecasting - we actually have the full year cost increase greater than the cost increase in the second half. So look is that a conservative assumption, a realistic assumption? It's an assumption that we've made as we've built our forecast because it's something that we really can't control. We can control the efficiency rate at which we drive our own business but we did see higher plant costs - sorry higher transportation costs. They have moderated somewhat in the second half but we still see a fairly large increase as we look into FY16.

Matt Spence: (Merrill Lynch, Analyst) Thanks.

James Hall: We have Anthony Moulder from Citi up next in the queue, good morning Anthony.

Anthony Moulder: (Citi, Analyst) Hi, good morning all. Just a question on the slowing - we've seen some slowing in that net pallet revenue business as per that column chart. I think we've seen it for a little while now but we're now at a point where you're increasing the investment. Does that suggest that you're not seeing any shrinkage in the opportunity ahead for the pallet space in particular but it's just a timing issue that we should be aware of?

Tom Gorman: Yes, I'm sorry Anthony - first of all I appreciate your participation. I'm not sure I fully understood your question. Are you referring to a specific slide?

Anthony Moulder: (Citi, Analyst) Yes, let me find the slide. Slide 13 - we've seen - so pallets net new business that's at US$64 million I guess that it wasn't - it was a little bit lower than that obviously in the first half so I guess we're starting to see a slowdown in some of that - the growth profile coming from that net new business?

Tom Gorman: No, I think that I would be careful of reading too much into that. I think that we've been open in terms of the pallet business in total where we've seen net new business and particularly in Europe in FY15. We had a number of pieces of business that for us to pursue and win those businesses - or to win those customers or to retain in certain cases - the return profile was well below our expectations. So we did walk away from some business in FY15 and that had an impact on the net wins. So it's actually a loss component of net wins. Z if you wanted to add anything else.

Zlatko Todorcevski: That's all - I think it's absolutely right. So we're getting pretty healthy wins particularly in the Americas Anthony and as Tom said we continue to win business in Europe but the issue is particularly pointed competition there on price. So we have lost and we've - I think we've been transparent on that for at least the last 18 months or 24 months. But that's been a trend that we've called out for a while but it - I wouldn't read too much into that. I think we're pretty comfortable with where we sit on net wins.

Tom Gorman: Yes and I think that the - arresting the decline in our share in certain markets in Europe is a priority for us but the return of our business is also a priority. So - and I think we've said this Anthony on several occasions that we need to be cognisant when we win or when we lose a customer of the impact it has on our network efficiency. I believe that we are very cognisant of that and look I think if you can just watch carefully in what's happened with LPR. Look we've lost some business to them in the UK; we've been open about that. We think it was very - the economics were very unattractive and if you're watching closely that competitor - they cleaned out their management team - both CEO and CFO. I'm going to guess that they had a look at some of the returns on the business that they were winning. But nevertheless they've made a leadership change there on the back of winning business which generally would indicate to me you won business you really didn't - you didn't want.

Anthony Moulder: (Citi, Analyst) Understood, thank you.

James Hall: Thanks Anthony. Will Charleston - good morning Will. Will from Goldman Sachs is up next.

Will Charleston: (Goldman Sachs, Analyst) Good day guys. I just have a question on Ferguson. It delivered 7% pro forma growth in FY15. What's the outlook for that business in this new oil price environment? Has your thinking changed much for that business since you acquired it?

Tom Gorman: Look I think if we said our thinking hadn't changed, you'd want to ask the question again. We love the Ferguson business and that is clear. We think it's a well run business, we think it's got a good group of folks working there, we think it's well positioned. We think it has great customer satisfaction and it's well respected in the markets in which it participates in. But we have to be realistic. I think when we closed the acquisition oil was trading at US$92 a barrel and today it's in the US$41 range. Clearly that has had an impact on the marketplace. We've also talked in our half year results about how we are well positioned in oil and gas. Where we play today is really at the lower cost end of extraction. So we're not in ultra deep water, we're not in the Arctic we're not exposed to shale. So we're in the right place if you will. But having said that when those other areas of the market slow down it does free assets up that then can find their way into competing with us.

So it has been more challenging than we would have anticipated when we made the acquisition but by sure we're not sitting on our thumbs here. We have reduced our overheads in that business significantly; we've taken 12% of the workforce out as part of our adjustment. At the same time that we've reinvested, we've put more resources into the Middle East where we think there are real growth opportunities for us; we've strengthened our own marketing and sales capability with the Ferguson team in Europe. So we are treating this as you would expect us to. We did not buy this for the next quarter or the next half, it's part of our company for a long term. We'll look at continuing opportunities in the oil and gas space as you would expect us to and we'll manage this business aggressively as we manage all of our portfolio businesses. But to say that's met every expectation since the acquisition - well that would be misleading because we did not foresee oil process dropping to the point of where they are today.

Having said that we do like the business and we're going to continue to manage it aggressively for growth and profitability and strong returns. It is a strong margin business it has - incremental investment in this business is good, it has a strong incremental return on capital and we're pleased it's in the portfolio,

Will Charleston: (Goldman Sachs, Analyst) Great, thanks Tom.

James Hall: Up next you have Paul Butler from Credit Suisse, good morning Paul.

Paul Butler: (Credit Suisse, Analyst) Hi, thanks guys. I just had a question on RPCs. So the growth rate for the year came in at 10% in North America whereas I think in the first half you were around 11% and I was expecting that you'd be seeing much stronger growth in that particular market. As I understand that you'd changed the management team there a year ago with the express focus on looking at a strong growth. So just wondering what's happening there and what we could expect going forward?

Tom Gorman: Yes, well look I think when it comes to the North American growth, I mean we're actually quite pleased with the growth. You're correct to identify that it slowed a little bit in the second half and there's really been one major issue, there's been a bit of consolidation in that market. You might - those of you that watch the market closely would notice that Albertsons - it's a private equity deal - but Albertsons acquired Safeway. Safeway is a very big customer of ours and I think that as they bring those two businesses together I think the general growth rate has slowed a little bit versus what our initial expectations would have been. We'll watch that merger closely going forward; obviously it is a big component of our growth plans.

Relative to the management team however though, we made a change probably now two years ago [Z] that we're very pleased with. I think that the management team is focused on the things we wanted to get them focused on from the beginning. Look, we have a very strong market position there; we are in essence the market maker. We have a first mover advantage that we believe is strong and we want to continue to grow that business. As we grow it we think that that will bring with it all of the advantage that a network business should have. Which means that we get better efficiency, better asset utilisation, we drive our plant cost down, we drive our transport cost down, all of those things are ahead of us. I think also I would just mention finally Paul that we have been open here and we put the chart up in front of you. There are a couple of businesses in our portfolio that still require more direct attention both from the corporate team as well as from Wolfgang and the RPC leadership team. We've identified the North American business as an area that's going to get a lot of focus from us in the year.

We have to continually prove out that this is a business that deserves the capital that we want to invest in it and the way we do that is we prove all of the things that I just said. That the network effect as we grow the business is in fact delivering improved returns. We like the business a lot, we're going to continue to invest in it but it does get a lot of focus. Much more than you would think given the overall size of the business.

Paul Butler: (Credit Suisse, Analyst) Okay, thank you.

James Hall: Thanks Paul - we have Paul Mason at RBC up next in the queue, good morning Paul.

Paul Mason: (RBC, Analyst) Morning guys. A question on the balance sheet quickly. So your net debt EBITDA number is at 1.75 which I - from my understanding it's pretty much where you want it to be at for your credit metrics. But you've decided to leave the DRP open for the foreseeable future. I just wanted to get some comments on - I can understand say for next year you've got a big CapEx half way you'd maybe attract a little bit more equity capital. But what's the reasoning for kind of guiding for that being open longer term, not just for say one year or so?

Zlatko Todorcevski: Well it's more just a pragmatic decision. So administratively turning it off and then on again does take some time. I think if you look at a number of other corporates what they do is turn it on and leave it on. If they find that they don't need the DRP then they either - excuse me - have a 0% discount or neutralise it. That would be our intent in the longer term. As Tom said we see a spike of CapEx n '16 moderating in '17 so we'll just see how we go with that CapEx.

Tom Gorman: The only other thing I would add to that Paul is that in addition to the organic growth in the CapEx that we've identified, look we don't see any major acquisition in front of us but there are a series of bolt-ons that may present themselves during the year. Us having the flexibility to respond to those opportunities quickly - the three things that we've talked about here but clearly the Chilean acquisition, fantastic for us to strengthen our RPC footprint in South America. Acquiring the remaining two thirds of the IFCO Japan business and we also made a small acquisition South Africa. So the sum of those things it gives us the market response capability that makes us a bit more comfortable as opposed to bumping up against the 1.75.

Paul Mason: (RBC, Analyst) Thanks a lot.

James Hall: Thanks Paul. Sam Dobson at Macquarie is next in the queue, please go ahead Sam.

Sam Dobson: (Macquarie, Analyst) Hi guys, thanks for taking the time. Just a couple if I might. Just following on from a previous question on Ferguson. You mentioned the business has strong incremental ROIC which we'd agree with. How has the growth expectation changed for that business since the acquisition of it and noting the fall in the oil price? Just if you can elaborate where you're making investment in that business.

Tom Gorman: Yes, so I think that - look, as I said we still like the business. I think we had a vision that we would be able to put more capital into the business in the acquisition case. So in a way - and you guys know how to do this as well as we do - but there's less cash going into the business. So in a way the return on the initial investment actually in the short term looks a little bit better but that's not really our plan. We want to grow that business; we think there are plenty of opportunities. I think when we look at the globe today probably the area that has the most opportunity for us is in the Middle East and that's fundamentally the area that we're strengthening in terms of our portfolio. We still have a very strong footprint in Europe; we have a strong footprint here in Australia. But we are focused on - organically I would say focused on the Middle East.

In terms of other opportunities - and this potentially goes to the bolt-on comment. But if there were other opportunities, clearly the strategic hole that we have in our portfolio in oil and gas is a position in the Gulf of Mexico. Look we'll continue to look at opportunities that may present themselves there and if there's something that opportunistic for us - and you should read that as sort of the right strategic fit and the right value story - I think we're in a position to take advantage of that.

Sam Dobson: (Macquarie, Analyst) Yes, okay and then just one on RPCs if I might. So you called out scale of the network efficiencies starting to come through in that business and looking to continue that trajectory in FY16 if I'm correct in hearing you.

Tom Gorman: Yes.

Sam Dobson: (Macquarie, Analyst) How does that correlate with the increased CapEx in that business?

Tom Gorman: Yes, so the CapEx in terms of year-over-year growth in our CapEx. In the RPC business it's actually not that great an increase year-on-year. If you look at our CapEx that we spent in '15 in the RPC business versus what we're planning to spend in '16, the primary increase or the delta is really around the wood look crates. So we have been growing the business as you pointed out in the US, we'll continue to do that. But the new merchandising alternatives that have been presented by our customers, that's really kind of where the growth is going to come from. I also would add that we believe that's incremental growth that that presents us an opportunity expand the reach of RPCs, either in certain categories that they had not yet converted or even with certain customers that have not yet converted. But - so in terms of absolute year-to-year, not that much of an increase in terms of growth. So meaning that we're getting similar growth rates year-on-year but the difference is really in merchandising alternatives.

Sam Dobson: (Macquarie, Analyst) Right, okay. Alright, thanks guys.

James Hall: We'll now go to Nick Markiewicz at Morgan Stanley, hi Nick.

Nick Markiewicz: (Morgan Stanley, Analyst) Hi guys. Tom maybe just a bit of a broader question for you on the containers business. But can you maybe just give us an update on the strategy more broadly there? I guess in the context of your comments before around very little incremental CapEx being put into that business and revenue growth being - organic revenue growth being quite low. So maybe just an update there and I guess how that fits in with the broader business from a more strategic point of view.

Tom Gorman: Sure, a great question, thanks Nick. So look I think if you take a step aback and look at the broader corporate strategy right. The corporate growth strategy was around really two fundamental themes. One is take what we know which is really pooling expertise, supply chain expertise and apply that to more jurisdictions and we have done that, we've continued to grow into new markets. But primarily we're growing in those markets in either the two supply chains that are our largest components - so the RPC business - you look at our growth in Latin American now - in Japan. We're also growing in Eastern Europe and so forth. But it takes what we know very well and it moves it to a new jurisdiction and we're doing the same in the pallets business, so the supply chain that serves fast moving consumer goods.

The other component of growth though was take our expertise and apply it to a different asset class. That's really almost entirely what the containers business unit is all about. Within that business unit there are four fundamental supply chains that we service - four fundamental industrial supply chains. Automotive is one, oil and gas is another, aero is the third. Then there's general - I would call it general industrial - but it's really the intermediate bulk container business. That is about inbound raw materials to the manufacturers whose outbound packaging we already handle. So we think of it in those four ways. Now I said that there's not a lot of incremental capital year-on-year but there's a lot of capital going into the business to serve growth. What I'm really saying is we're applying about - well it's about a 10% increase in terms of growth CapEx from the prior year. So think of it broadly speaking about US$50 million goes into that business in FY16 which again is up about 10% from the prior year. So it's a strong amount of capital that we're deploying to the business but we are - we have been deploying it each year so there's no big change.

I think the other thing that you have to look at is you have to step back. Because there are four separate supply chains, you can't paint them with one brush and there are some quite interesting dynamics in each of the supply chains. So let me just take automotive for example and just share some data with you. So when you step back and look at the automotive business, we have a footprint in several locations in automotive and one of those locations is ANZ. Now - so Australia only is now 7% of our total automotive sales but last year that business declined at 14% and we all know that that business - ultimately car manufacturing is exiting Australia in the next couple of years. So that impact just in the year led to a 1.4 percentage point negative growth. So we're going to have to overcome that with growth. How are we doing that? Well in the Americas last year we grew at almost 60%. Now that business is only 7% of the total but it continues to grow aggressively and we are continuing to grow that business not just domestically but a number of intercontinental movements into assemblers and manufacturers in the US - components and sub-systems coming primarily from China and India. So we see it as a great growth opportunity but the growth is going to come in what are the smaller businesses today, primarily our Asian business and our Americas business.

When you look at Europe - Europe today is almost 70% of our total mix and there we're somewhat at the whim or somewhat tied to the general organic growth of our customers and the European automotive market has been fairly muted. So we essentially got very little growth out of that business. So when 70% of your business doesn't grow you have to run pretty quickly in the other pieces and then you put Australia on top of that that's shrinking. So the automotive business sis very attractive for us, we still believe in it and ultimately the play for us is intercontinental movements. But in order for us really to win in that space we believe we have to have strong footprints in the major automotive centres and that's what we're building. We're comfortable and confident with the progress that we're making but it's going to take time to continue to do that and the returns on the business are quite strong for us.

Oil and gas I think we've covered in terms of the focus on Ferguson. Great business, clearly some macro factors that are headwinds at the moment but we think we're doing the right things and we'll continue to look for opportunities that may present themselves in that space. When you look at the IBC business - our IBC business grew very nicely during the year. Still heavily influenced by some acquisitions but we see that as a real growth opportunity for us in the future. But again here we're trying to disrupt inbound packaging. So what comes in today in cardboard or wood boxes or burlap sacks - however it comes into the manufacturing environment, we're trying to do what we did with outbound, we're trying to get into a fungible asset class, we're trying to get it to be a re-usable asset. I think we're making good progress here but this is going to continue to take time. But as we showed in that slide briefly, the incremental investment has a very, very high return on capital.

Then that leads us to the last business which is aerospace. Look, we continue to grow the aerospace business quite well, even excluding acquisitions we grew it at 14% in a year. We continue to win major pooling accounts and I think the issue for us here is going to be twofold. Can we get this to a business that is attractive for us to continue to put capital in? Meaning when we allocate capital where does it rank in terms of the business in our portfolio. Then second also is the business scaleable? What size can we really get this to be to be meaningful in our portfolio? Now these are questions that we've been very open about. They are questions that are in front of us. But we'll continue to evaluate our portfolio as a portfolio of businesses. So long winded answer because it's kind of a complicated story. But the containers business is the poster child for growth in new verticals by taking our pooling skill and applying it to those verticals.

Nick Markiewicz: (Morgan Stanley, Analyst) Right, okay, thank you.

James Hall: There's one final question on the line. Obviously if anyone wants to ask another one, please do so. The final question we have queued is a second question from Scott Ryall at CLSA. Please go ahead Scott.

Scot Ryall: (CLSA, Analyst) Thank you. Tom just a question on slide 21 which is your US inventories in pallet demand - pallet demand slide. Could you just talk - I mean most of the FMCG companies - either supermarkets or producers - in the course of the first six months have talked about sales growth surprising on the low side of what they were expecting at the start of the year. Is that a potential reason for the increase in inventories in your mind?

Tom Gorman: Yes, no it's interesting because I think very few people would have called us bullish on the growth in restocking post Lehman. We actually have this chart that goes quite a way - back to '08 and it shows where stocking really fell and we had significant de-stocking. But look we're showing you the data as they exist there and what has happened is we have really in the last six months seen a build up inventories. Now one of two things are going to happen with that. It's going to be sold through and you're going to get growth in the market place. Or you're going to get a slow down in new stocking of it and you're going to back to a level where we were before. Now we're reacting to what we see in a way and remember we're - we have a model that's quite predictive here so we know when the supply chain is restocking. So we're pretty good at understanding that. Obviously you can't predict long term consumer demand but we know when stocks are building and we can react to it quickly.

So what we're showing you here is that we have done a great job of managing our stocks down over the last couple of years. We have no new pallet commitments in the US; the team has done a phenomenal job managing this. Now what we've seen as - during that process we have seen an up-tick in stock levels and for us to respond to that we have to put some more assets in place. I don't think that's a big risk for us because we can respond very quickly in the US market. If we don't see the flow through in ultimate demand and demand growth in the US, it's not an issue, we just modulate the growth and we continue to run our plant stocks very tight.

So I think we have the flexibility to respond but we clearly are seeing this today and it's either going to be one of the two. Either it flows through in demand and you get a growth in demand in the US. Or you see an area where our customers may have misinterpreted some of the signs and there's not complete pull through of that and there's a bit of de-stocking after this. But we're in a position to respond. Our plant stock levels are at the lowest they've been in the last eight years. So we have managed this very, very well. We have - as I think Z's been very open on - we have traded a bit OpEx and CapEx here. So when we run our stocks to a very good, tight level, you then have to move pallets around a bit, there's a little bit more transport cost. So us just increasing in our plant stocks just moderately anyway will help us modulate some of the operating expense and that's not a bad thing for us in the long run.

Scot Ryall: (CLSA, Analyst) Okay, thank you.

James Hall: Thanks Scott. We do have one more question in our queue. Another question from Paul Mason at RBC, thanks Paul.

Paul Mason: (RBC, Analyst) Thanks guys. Sorry, just on the US RPC business. So there were some reports earlier in the year that I saw that - about Polymer Logistics winning a significant account from Wal-Mart with a very similar wood look crate product. So I was just wondering if you could speak a little bit about the what - I mean because you've kind of mentioned a couple of times this wood look crate that's driving new growth for you guys. Is that a direct competitive response to what Polymer Logistics has done? Or is that just like a general thing where a lot of supermarkets are moving to that sort of a product?

Tom Gorman: Now look I think that - I think there's been a lot of - how do I say this here? I think Polymer has done a great job of positioning themselves publicly is I guess the best way I would put that. We have been in dialogue with our customer in the US and globally for a long time. We talk to our customers all the

time around innovations - both innovation in process as well as innovation in product and we're continuing to do that. Clearly with REWE - REWE has decided that they want a different look in their merchandising strategy and we're meeting that requirement. We've signed a 10 year deal with them and we'll be delivering now black coloured crates to them as that fits what they're trying to do. As other customers look at different ways of merchandising, we want to be there to meet those requirements. So we have a solution than meets the requirements in terms of a wood look crate.

I think that what happens in this space - particularly - the differences in the businesses are quite broad. In Europe you get exclusivity with the retailer and you sign a long term contract. Obviously there are financial ramifications associated with that; we have a deposit program in Europe. I think everybody understands the difference. I the US you don't have that case; there's not exclusivity with a retailer. But given our network advantage, given our cost position, our ability to deliver. When customers want to have a different merchandising strategy we remain open to delivering a solution for that strategy and that's exactly what we're doing. Polymer is welcome to compete in that space - obviously we're - Tosca is also a competitor in that space. Our businesses are not in competitive free zones here, we have competitors. But our ability to respond quickly and to deliver the network advantages that we possess we think puts us in a good position to win the business. So yes, Polymer is amongst the consideration set for some retailers but we think we're in a very good position to win that business.

Paul Mason: (RBC, Analyst) Okay, thanks a lot.

James Hall: Thanks Paul. There are no further questions in the queue so with that, thanks everybody for joining us this morning and have a great day.

Tom Gorman: Thank you all.

End of Transcript